

ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE

VOL. V.

MINUTES OF EVIDENCE

TAKEN IN LONDON

BEFORE THE

ROYAL COMMISSION

ON

Indian Currency and Finance.



LONDON

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*Govindlal Surval*  
*Motilal, Bombay*



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# ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE

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ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE.

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MINUTES OF EVIDENCE

TAKEN BEFORE THE

ROYAL COMMISSION ON INDIAN CURRENCY  
AND FINANCE

AT THE COUNCIL ROOM, INDIA OFFICE, LONDON

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TWENTY-NINTH DAY

Monday, March 1st, 1926

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PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG 1 C D.S.O. D.S.O. M.P. (Ch. m. n.)

Sr. RAJENDRANATH MOOKERJEE K.C.I.F.

K.C.V.O.

Sr. NORCOT HASTINGS TAYLOR WARREN K.C.I.F.

Sr. REGINALD MANN K.C.I.F. C.S.I.

Sr. MANCHERIL HYRAMJI DIDIACH K.C.I.F.

Sr. HENRY STRAKOSCH K.B.E.

Sr. ALEXANDER ROBERTSON STRATH C.I.F.

Sr. JACOBSON & THIRUKURAI C.I.F. M.B.F.

M.L.A.

Professor JAHANGIR ANVERJI C.I.F. M.P.

Mr. WILLIAM EDWARD LARSON

Mr. G. H. DIXON } (secretary)

Mr. A. AT NAR

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1 March, 1926]

Mr. CHAS. H. KESCH, C.B.

[Continued]

Finance Department memoranda seem to contemplate that at the completion of the gold exchange operation the active rupee circulation will not be materially different from what it was at the beginning.

10772 If you are in agreement with that ultimate ideal, no doubt also you agree that the system under which you have three forms of full legal tender money in circulation, namely, notes, silver rupees and gold coins, is a cumbersome one?—It is not perfect, but it is a system which prevailed in France for a very long time up to the War. It seemed to answer all right there. As far as India is concerned, how far the gold coin circulated in practice is an important consideration in the question. If the actual circulating media are silver rupees and notes you have in effect two forms of token currency circulating, and you have not any full valued currency circulating. To that extent the situation in India would approximate more closely to the ideal than if you had an active gold circulation of full valued gold coins.

10773 You have under that system two forms of notes, the paper note and the silver note each convertible into the other?—Yes.

10774 Has that anything to recommend it from the theoretical point of view?—I have always heard that the free convertibility of the note was an indispensable condition to its successful development in the early days of note circulation. Its development was characterized by a desire on the part of the Government of India to increase as far as possible the opportunities for free convertibility into rupees. I believe that that fact—that the paper token has been convertible into the silver token—has played a valuable part up to the present time in promoting the development of the note circulation in India.

10775 I suppose it might be said that the basis of any note circulation must be that it shall be freely convertible into something better than itself?—I should say so. In India importance has hitherto been attached to its free convertibility into a coin. May I say another word on this point of convertibility? I regard it as an important matter, not only from the point of view of the development of the note circulation but important from the point of view of the general banking habit. History has generally shown that the banking habit is reached through three stages. In the first stage the man insists on having metal, then he is afterwards content with notes and finally he is content with an entry in a pass book. I think history shows that in countries where the banking habit has been developed it has generally been through the development of the note circulation. I should, therefore, regard it as a most serious matter if anything were done which set back the development and the growth of the note circulation as likely to impair the development of the banking habit.

10776 I want to clear up one or two points on which I have some doubt as to your real intention before going more deeply into the matter. When you deal under (A) with the possibility of the price of silver rising above the melting point of the rupee, what are you contemplating in your argument there? Are you contemplating that if that is so the exchange value of the rupee should be put up in order to protect the silver circulation?—As far as I can see the question of a rise in the price of silver threatening to reach the melting point of the rupee would be likely to be one aspect of a general depreciation in the purchasing power of gold. In other words a rise in the price of silver would be associated with a rise in prices of commodities generally of a very formidable character. In that case India would be in a position to protect herself against gold depreciation by raising her exchange, as she did in fact toward the latter part of the War and as she has in fact done at the present time by having a 10 per cent rate as against a 100 per cent rate.

10777 You are really saying that such a rise in the price of silver can only come as a part of such a general contribution as would probably shake the Indian exchange out of its stability, whatever happened?—I am not at all sure that if a rise of that sort happened again it would not shake the gold standard out of existence. If the experience that the world has had of gold vagaries since 1911 was repeated again within the lifetime of the present generation, people would really begin to question as to whether we ought not to go on to some form of a standard managed so as to maintain stability of commodity prices. I do not, of course, say, and it would be foolish for one to pretend, that gold depreciation is the only conceivable way in which a rise in price of silver might occur, but as things stand to-day I do not see any serious danger of a rise in silver from any other reason. I cannot of course speak positively about such a matter.

10778 Is it possible to be at all confident that a rise in the price of silver can only come as a result of a catastrophic fall in gold prices, if one considers that the price of silver seems nowadays to follow general commodity prices over long periods of time, and that, in particular, at the present time, the price of silver seems to be rather under valued in comparison with general commodity prices? As the price stands it is inexplicably low in view of the general rise of commodity prices since the War. Would it not be natural to expect a substantial rise in the price of silver, to bring it into relation with other commodity prices?—The production of silver is associated, as you all know, with the production of other metals, and I think that output has lately tended to be fairly constant. The demands for silver, on the other hand, are not of such a constant character. The fact that the Indian Government has been out of the market and itself holds a vast store of rupees no doubt has an influence on the present relatively low price of silver, as compared with other commodities, but a rise to 4" or 4½ would be a very formidable increase over the present figure, and I should suggest that a rise of that sort, or anything like it, is only likely to be associated with the general depreciation of gold.

10779 You are not, then, under the impression that there is any necessity of providing in the Indian currency system any automatic protection against a rise in the price of silver?—I think there are various brakes which could be put on so far as India herself is concerned. There is the reintroduction of the one rupee note, which is a method of economizing the demand for silver. Then there are the various other suggestions which were put before the Babington Smith Committee, such as the minting of a two rupee piece with a lower proportional silver content. I do not know what the present opinion on that matter is, in 1919 the idea was rejected. But nowadays one finds that views which were then generally accepted are apt to be thrown over. I do not know what present-day opinion would be on a point of that sort.

10780 That is as to the possibility of reducing the silver fineness?—No I was not thinking of the one rupee. The idea of reducing the fineness of the one rupee piece appears now, as then, to be universally condemned. I had in mind the possibility of minting a two rupee piece of a proportionately lower silver content than the present one rupee piece, devices of that sort, and the reintroduction of the one rupee note. One must remember that during the war an unprecedented strain in the way of supplying the currencies and liquidating the trade balance of the East was thrown on to silver because gold was being bottled up by all countries. One does not at present anyhow see a likelihood of the bottling up of gold in the way in which the world suffered it in the war, and this was one of the factors which contributed to driving up silver to disproportionate heights. There is that important brake which was lacking in the course of the Great War.

10781 You deal with the possible effects in relation to the demands for conversion of silver rupees into

1 March, 1926 ]

Mr Cecil H. Knox, CB

[Continued]

gold mentioned in Sir Basil Blackett's proposals and you say that the interest of bullion dealers would be to discredit the rupee and to collect as many rupees as they could from all quarters and present them for conversion. They cannot collect the rupees without paying for them, so is not there a limit to the power of financing them for the purpose of getting the gold from the Government, necessarily in anticipation of its subsequent sale to the public?—I do not know how quickly they would be able to make the turnover. They obviously must have a certain amount of working capital with which to begin the operation, but, armed with a certain quantity of gold, the suggestion would be that they would go up country with a stock of gold, inform the Indian peasantry that the rupee was being exploded and was likely to be reduced in value to, say, 12 annas, and they would then exchange the gold at a discount for the rupees, take the rupees back to the Government, replenish their gold again, and the process could be repeated continuously during this period, whatever the length of time is during which the operation goes on. It would obviously be a most attractive and paying operation if you could manage to get the untutored country folk of India to disgorge their rupees on a 14-anna basis.

10,782 You think, once the alarm had been given, the financial consideration would not set as a sufficient check in the speed with which the conversion would proceed?—I do not quite follow that.

10,783 Once the alarm has been taken by the holders of rupee hoards you think that that financial brake as regards the finances of the dealers and brokers would not act sufficiently to check the speed at which conversion would proceed?—I rather doubt it. It takes a long time for ideas to get up and down the length and breadth of India, large parts of which are remote from railway centres, and the people of which are ignorant. It would probably take a considerable time before the whole purport and the underlying motive of the transaction was brought home to the villager, and there would be a considerable time available for the exploitation of the ignorant.

10,784 I understand from your memorandum that you do not place any reliance upon this estimate of the limitation of the initial demand to 50 crores?—I think it is quite conceivable it might come on you with more of a rush than that. I do not want to question the actual estimates in the Finance Department memoranda because any estimates I could give would not be based on such a first hand acquaintance as theirs and would be open to equal question. All one can say is that such estimates are to a large extent conjectural. My suggestion is that if this idea of the blowing up of the rupee were to get widely known, people would take steps to get rid of whatever they could spare as they got opportunities of doing so, but I think it would take a longer or a shorter time for the project to get known according to whether the place was near to a big town, and so on. It would get known in the big towns very soon, and it would gradually spread to outlying districts. I could not at all say that 50 crores would be sufficient, particularly as I think it might threaten the trust in the note, and lead to a demand for note encashment.

10,785 As regards the estimate of 110 crores of rupees as the total amount likely to be presented by the public, we have had it in evidence that that would leave 150 crores outstanding for the public for smaller transactions. Have you been able to form any opinion as to whether that estimate is reliable or not?—No. I cannot really form an opinion better than that of the authorities in India. It does not seem to leave any unduly large amount per head of the population as far as one can see, but it is a curious thing to me that this actual circulation of the rupee seems to be very much the same after the operation as at the beginning. I should have thought there would have been a certain number of rupees from the actual

circulation given up in exchange for gold before the operation was completed.

10,786 From your memorandum I gather that you look to the period when after the conversion of the hoards there will still be say 100 crores of rupees in circulation, and you rather criticise some of the suggestions contained in Sir Basil Blackett's and his assistants' memoranda on the ground that one would still have to consider those 150 crores as being used in practice as unlimited legal tender whatever the law might be, and as being necessarily capable of contraction, and therefore having to be taken into account as a liability and in support of the exchange value of the rupee?—Yes. I think when you have got 150 crores of rupees in circulation and 100 crores of notes, which is about the figure taken, you must allow that if there is a return from circulation owing to any redundancy, the return will include, at any rate a proportion of rupees and that some place for those rupees must be found in Indian financial economy. The idea I had in mind was that if rupees were not an unlimited legal tender the banks would not want them. I do not think that, if the rupee enjoyed in common practice the quality of a full legal tender, it would be practicable for the banks to refuse them. When, on the other hand, they do get back to the banks they would be clogging the banking machinery unless the banks could be relieved of them, and it is obvious in such a case that the only authority who can relieve the banks is the Government. That was the chain of thought.

10,787 I would like to know what you would say to this point of view. The gross amount is enormous 150 crores, but if you regard it as proportional to the population and its needs it is no bigger than the small silver which is employed in the currency system of other countries. According to the estimate given as in evidence it is only 6 rupees per head and here in England you have 22s. per head of population. It might be asked why, that being so (i.e., that it is only a reasonable allowance of small change per head of the population) if it is no longer standard coin of full legal tender, should the Indian currency system take any more account of it than is taken account for instance, of silver in the British currency system as a liability in respect of the support of the standard of the country?—In that connection one must consider also the large deposit currency of this country, that is the cheque circulation of the country. If you bring the cheque circulation in this country into account and the note circulation and the silver circulation you will find that your silver circulation here plays a much smaller part in business than it does in the case of India, where the deposits of the banks are some where in the neighbourhood of 200 crores notes another 200 and rupees say 150 to 200. It is roughly a third of the total there whereas in this country (I was looking at the figures the other day) the bank deposits are somewhere in the neighbourhood of 2,300 millions and the currency notes are something like 400 millions in relation to these figures, the silver circulation of about 50 millions has a minor significance. The point is that a common standard to silver does not bring out the full importance which the rupee plays in Indian economy. As in the past it has been necessary to maintain a reserve to deal with redundant rupees and if the same number of rupees are going to continue in circulation hereafter one must assume that much the same risks of redundancy will continue hereafter as in the past.

10,788 You dwell also in several places in your memoranda upon the point that note weight should be given in your opinion, than is given in Sir Basil Blackett's memoranda to the possibility of the substitution, as the result of his proposal, of a note circulation by gold circulation?—Yes.

10,789 Will you expand that?—I look at it in this way. We are all familiar with the appearance of

1 March, 1926]

Mr. Cecil H. Kitch, C.D.

[Continued]

a rupee. If you have to carry 50 rupees with you, you have a little pile which weighs quite a substantial amount. Therefore it is an obvious advantage to use a note, but if you are going to introduce a high-valued gold coin, the alternative of carrying about a few gold coins instead of a large number of rupees would present some attractions and might make the user torn to the gold coin. In view of India's attitude towards gold one must assume that many of the people who have been in the habit of using notes became paper is more convenient than a number of rupees would turn to using gold, which would be quite a convenient thing to carry about. I think that is one way of looking at it. Also we know that gold is a full-valued coin. It has a certain prestige of its own. The idea that Government was introducing catastrophic changes into the currency habits of the people might produce a certain anxiety in people's minds against which they would naturally protect themselves by taking advantage of Government's offer to give them gold for paper or silver. In the Finance Department a memorandum one sees signs of some uneasiness on the point, because there is reference to the possibility of large holders of rupees being induced to postpone. That seems to suggest a certain nervousness in introducing the gold currency scheme. One cannot help reading into that a certain misgiving about the whole operation, and if you are coming forward with a gold offer of the kind in view, I can imagine no more unsatisfactory or undesirable thing than to have to begin by making demands on the favour of your customers. The persons who had large hoards would naturally say, "I will take advantage of the offer now while it is on, I cannot be certain that in three years it will still be on."

10760 I wanted to put an opposite contention to you on that, and that is this. We have had it in evidence more than once that, if exchange became a stable part of the recent heavy absorption of gold would be coming out into currency. Instead of a drain on Government gold reserves there would be an addition to the gold reserves coming back from their present hoard or a store of value of one sort or another. What do you think about that? Do you look forward to seeing any effect of that sort? You mean assuming the exchange was established and there was an offer to give gold to the public in exchange for rupees and notes?

10761 The argument is that confidence would be established by reason of two things—the stability of the exchange and the knowledge that gold was obtainable whenever it was required. The result this would produce would be so effective that the gold would come out into circulation or come back into the banks reserves from its present employment as a hoard or a store of value?—I do not see why it should come back from the place where it is serving as a store of value into the bank reserves unless it was part of the development of the banking habit among the people. I can quite imagine that some holders of bullion would take advantage of an offer to get that bullion converted into coin but they could take away the coin again and keep it once more in store. I do not think there is any reason apart from the growth of the investment habit for holding that the circumstances mentioned would in themselves bring the gold now held by individuals as a store of value to the banks. The ease of opportunities for getting gold would I suggest be equally if not more likely to promote the habit of storing gold.

10762 At one point in your memorandum you emphasise that, as regards the security of the Government during the early stages of the introduction of the Finance Department's scheme an adverse trade balance to which India is liable might involve additional sterling borrowing to support the exchange. I wonder if you could tell us from your long experience how many times during the last 25 years such a condition of affairs has arisen as would

have this result to which you refer?—During the last 20 years or so the Government has had in London a gold standard reserve, large sterling reserves on which one could draw. We are now contemplating a condition of things in which these reserves would have been utilised in acquiring gold for exchange into silver. Therefore any special borrowing which the Government of India might have to do in order to finance its gold programme would be supplementary to borrowings for the ordinary financial purposes of the Secretary of State. In that state of affairs additional borrowing to finance gold imports for exchange would I suggest be prejudicial to India's credit. Since the gold exchange standard was in full swing there have only been a few important occasions when we have had serious adverse balances involving the sale of reserve Councils. I was thinking in particular of 1904-5, 1911-5 and 1920—something also towards the end of 1919, I think—about half a dozen cases in all.

10763 On each of those occasions to which you refer I understand there was such a state of affairs as regards the trade balance as would have had that adverse effect upon such a scheme?—I think that if at any time the Government of India were borrowing heavily here you would have had to raise the question as to whether or not the progress of the gold scheme if it also entailed raising of credits should not be slowed down at any rate. The gravity of the situation would determine the actual policy. There is always a risk in a case of that kind, if you are forced to borrow very heavily for current purposes, of people beginning to question the whole basis of your policy. If Indian financial conditions were suffering a serious, even if temporary, setback it is quite conceivable that the whole gold policy itself would be brought under review.

10764 Let us see what the state of affairs would be by an actual instance. Supposing circumstances were to occur before the conversion of rupees into gold had progressed very far. The question is would not there be sterling assets or unused external credits which would be adequate to tide over the period? For example, supposing 50 crores of rupees had been converted and sterling to an equivalent amount had been used up at that time there would still be 50 crores of sterling assets and say 50 crores of external credits?—The external credits would be raised as they were required.

10765 That, I think is the figure which Mr. Denning is contemplating. Would not the position be safe then?—You have to maintain the convertibility of your note during this stage as well and some of your 50 crores of assets are represented by gold in India held against the liability for internal conversion of the note. I think that is so, is it not?

10766 Yes—So the whole of that amount is not available for external exchange. It has generally been thought that a very considerable amount of metallic legal tender ought to be held in India to Babington Smith Committee did not contemplate the amount being below 40 per cent of the circulation to secure complete confidence. If an adverse position arose in India for any reason, the authorities might find themselves in need of considerable quantities of gold for the conversion of the note because people might begin to be a little uneasy. If the set-back was not prolonged and only limited to a few weeks one might get through on the reduced reserve, take risks or to find on self. I do not want to be short. You have to remember that the liability of the Secretary of State on the account—part, for railway finance—runs to the neighbourhood of about 25 million sterling, a very small sum, which of course hitherto might have been financed in part at corresponding pick up of funds in India. It is pretty clear that one can get through a very large amount of sterling in a very short time if remittances from

1 March 1946]

Mr CHILLY KECI CB

[Cont. next]

Ind a nro dr ed up. If remittances from Ind a dried up for one year it would mean 93 million sterling away required for loan charges that is apart from capital requirements which would presumably be financed by loan. At all times the authorities would have to keep in Ind a considerable amount of gold coin presumably—or gold—to deal with the conversion of the note. I take it that at the stage one would be extremely reluctant to put out a further gold which had just been bought back at a heavy price. Therefore you would only be able in effect to utilise gold for meeting any demand for note encashment. At a time when you are undertaking a very far-reaching currency reform you want to have your reserves on a very ample scale.

1089 On the question of the sufficiency of the reserves you say that 30 per cent for gold and sterling reserves during the early stages of the scheme is inadequate?—That is so.

1090 But is not that 30 per cent an addition to the provision of sterling for the conversion of the rupee into sterling?—That 30 per cent represented I think the whole of the gold and sterling assets held in the paper currency reserves in the scheme which is therefore to deal with the rupee into sterling currency and any demand for internal conversion of paper into metal.

1091 In addition you would have whatever external credit you had available. Is it the opportunity of raising external credit for the credit of the Government of India would be prejudiced by a scheme of this character? First of all people would undoubtedly question the wisdom of a change in value, such a complete upset of the settled habit of general business—a change which would appear not to accord with accepted notions of currency ideas. As regards the actual investor he would not be able to get satisfaction of the confidence which is now given by the knowledge of the very large sterling reserves held by the Government. So I think that for the point of view of the international community and of investors and from the point of view of the public the scheme would not be attractive. The raising of the external credit would involve all kinds of questions as to the wisdom of the process which made these external credits necessary.

1092 Do you think it is essential to the credit of the Government of India the world at large pays much regard to foreign reserves?—I think with regard to the investor in India who is the person primarily concerned confidence is given by the fact that there are very large sterling assets held in the country on behalf of the Government of India. These assets are always known to be there. I think that does have a very important bearing.

1093 That is a special circumstance. India's credit position is compared with other countries?—Yes because she relies for her finance and her trade depends so much on this centre.

1094 Under the deal. Secretary of Government during 1944 after the gold exchange standard was established you compare the figures of notes and gold in the hands of what would be under the bill of exchange and under the gold exchange standard. Have you taken into consideration the 100 crores of rupees in hoards under the gold exchange standard which would not exist under the gold standard? Yes. I mention, there with the above relation I do not include the 100 crores of rupees in hoards in those figures. As a matter of fact when I wrote these memoranda I had not had the advantage of seeing the evidence of the officers of the Indian Government and my figure of 200 crores of rupees under the gold exchange standard apparently ought to be more like 100.

It was not clear to me from the early memoranda how much of this 100 crores was going to go out in the stage before there was any gold coin and I assumed that the provision of liquidity calculation that a certain amount of it would go out in the form of coin but as you say the immobilised rupees in store are not used there.

1095 I want to get a little closer to your mind with regard to this question of linking the rupee to gold or to sterling. Should I be right in thinking that the tendency of your memorandum is rather to minimise the importance of a form of linking with gold in comparison with sterling? I think we have not the outset to form some idea as to how far the return of sterling to gold is to be regarded as permanent. If you would say that the return of sterling to gold is permanent except for such conceivable emergency as one of a magnitude which would upset currency systems generally then I think one ought not to lay too much stress on the distinction between sterling and gold in dealing a sound system for India. We certainly held before the war that India was on a gold exchange standard. We did not hold the same as a sterling exchange standard. The idea of linking between the two must be traceable. I think to the upset through which we have just come for purposes of trade it is obvious that a fixing of rates of exchange between the two countries the expression of those rates must be in sterling but for practical purposes we regard sterling now as synonymous with gold.

1096 Then in view of the circumstances that India has come through a period in which there was a great upset owing to the divergence between gold and sterling you do not regard it as natural that India should now say as it were that the link should be with gold because what has happened in the past may happen again?—I think it is a question of what has happened in the past and I think it requires to be very late but I consider that the proper course is for those who understand the cause and circumstances of past events to explain to people the proper perspective and I think as I have tried to explain somewhere in my memoranda that India ought to be asked to reflect how she would have come off had she remained on gold at the pre-established rate during the last ten years. I think that question examined in its proper light those who understand it will be able to explain to those who do not understand it that India would have suffered much worse under such conditions than she actually did fare. It is obvious that had she remained on the pre-established gold rate her price levels would have inflated more widely than they have done. In 1914-20 the rupee in India which then gave great alarm throughout the country would have been exaggerated and in so far as it has been possible to get the results of the depreciation of gold in the case of India to the extent we have to do with she would have lost these advantages. As I say I think in considering this question India must consider what she would have experienced had it been practicable for her to remain on the pre-war gold rate during the period of upheaval. One may ask what would happen if a similar upheaval occurred again. I do not think it is possible to predict at all where what India's interest would be. I think she would have to consider what course she would adopt in that case in the light of the circumstances as they were at the time. It is not possible to say that if India were to link her currency at a fixed rate to gold it would in all circumstances be an advantageous thing for her to do. That is a question which I think there was a very small violent disturbance of the value of gold throughout the world.

1097 Suppose I were to be put in the way that we cannot be sure that what has happened once in my not happen again that sterling may not depart from gold in some of the conditions which might not affect her world at large. Under those circumstances if India's currency is linked to gold and not to sterling it can fall back upon the dollar to the benefit of stability of Indian prices. I think in the first instance one may ask as to whether India is going to be safer linked to the dollar than linked to the rupee. There are elements of uncertainty for any country hanging on to the currency of

1 March, 1926]

Mr Cecil H. Kitchin, C.B.

[Continued]

another country. I think India can rightly repose greater confidence in this country, with which she has political and financial ties of long standing, than she can in any other country, and that to transfer her currency allegiance from this country to another country, apart from the fact that it would not accord with the line of Indian trade, would not be in the long run to the interests of India. After all any country has risks. There have been periods when the United States itself has been thought to be not free from political risks in its position with regard to other countries. One may hope these sorts of dangers will not materialise, but if they did materialise it is obvious that the reactions on India might be very inconvenient. She might, for example, find that the possession of dollar credits could not be utilised to the extent she had anticipated, whereas with this country—which does appreciate the demands and claims and rights of India—she is always sure of receiving the fullest consideration of any claim.

10606 On a minor question of fact, you say that the securities in the gold standard reserve yield an average return of 4½ per cent. Was that the actual rate during the last two years, or was it not nearer 3½ per cent?—I got that figure from our Accounts Department. We have recently re-distributed the securities, and it is possible that two years ago they may not have been yielding quite that figure, but I can get the exact figure for the Commission and let you know it definitely when I come before you again.

10607 Now one or two questions on general policy. You say under the first head of your memorandum No. 3 that your remarks do not imply that gold coinage should not be undertaken in India if the people of India desire that the gold which they import should be stamped in small units with the Government hall mark of fineness and weight and be available on occasion as legal tender. What in general is your opinion as to the desirability of adding to a gold exchange standard a gold currency of this optional nature?—I do not regard it as in any way an essential characteristic of a gold standard that there should be a gold coin struck in the country. On the other hand a project of this kind, though I do not attach much importance to it myself, seems to me to be comparatively inexpensive and harmless. As I say, it merely represents the placing of a Government hall mark on gold which either India already has or which she is likely to acquire in liquidation of her trade balance. It has to be remembered that India has had a gold mint in the past, and the people of India—or those who attach importance to this question—may want to have similar facilities again. I confess myself that I share Mr. Dunning's view when he says that he does not think this gold would in the circumstances of which we are now speaking circulate to any material extent as currency. It would merely be a convenient form for storing it away. I think he says that unless the rupee is exploded the circulation of gold is likely to be of very small dimensions. That would accord with what one has learned from experience and with the experience of people who have had long acquaintance with Indian conditions. As I say I do not regard it as an essential feature of the scheme but as an excrescence of a relatively harmless character.

10608 Under the next head you say "It is recognised that the large additional drain of gold to India over the ordinary demand which is already large, might seriously affect gold prices." Would you explain this? What is the nature of the difficulties which you apprehend and what is their extent?—As things stand at present a large supply of gold for India, over and above what she is taking in the ordinary way, would presumably have to come from the surplus holding of the United States. I should imagine that with careful management and wise guidance it should not be impossible to move to

India a very considerable amount of gold from the surplus holding in the United States, assuming that the financial authorities looked with favour on the operation, without a general opening of discount rates in present conditions, but what the effects in the hereafter would be I am much more uneasy about, because having set on foot a gold circulation in India with the increase in population, and so on, it is quite on the cards that the annual increments of coin, which in the past has largely taken the form of silver, would in the future turn more to gold, and therefore there would be not only an immediate demand for a large capital sum, but, probably for an indefinite period, a continuing additional annual demand, in good times, for increment to the currency in place of silver hitherto. I say all this with a good deal of reserve because though I believe that it ought to be possible to move a large amount of gold without a general upset, I cannot help having some hesitation as to whether in practice it would be done. I took a cutting out of a paper not long ago of the views of American bankers as to the question of gold movements in which the statement appears "Our bankers would like to see a slow outflow of gold but fear that under the existing trade and stock market and real estate building conditions, any general outflow of gold would result in a sharp decline of commodity prices." Though I believe it might be possible, I apprehend there is a risk that even in the present it might have serious reactions, possibly from psychological causes, and that in the future the additional demand on gold might have a very serious influence in the future level of gold prices. I am rather inclined to support that view from something which Sir Basil Blackett says. On one occasion he said something to the effect that he believed that at the present moment when there is a redundancy of gold in America, this kind of operation might be set on foot but if we wait a bit the gold may not be available for the purpose. From that I rather infer he himself recognises the danger that if things are left alone the surplus gold which is now in America might disappear in other ways, and therefore if the force of an additional demand for India is not immediately felt, ultimately it would be felt. I do not know whether that makes my meaning clear.

10609 The final part of that paragraph reads "It is safe to set aside altogether the possibility of a fall in gold prices, especially if the demand for gold was increased by additional requirements for India for the purpose of providing a gold circulation?" I gather you are inclined to answer that question in the negative?—I do not think you can set it aside. I think it is a factor of which account must be taken.

10610 You say "If the solution of India's exchange problem is to be essayed while world conditions are still unstable, it would seem unfortunate to add to the risks by any action that might tend to cause a rise in the value of gold." What conditions of instability have you in mind there?—To my mind the principal factor at the moment which produces a certain amount of uneasiness is the unequal distribution of the world's gold, because so long as a dominant country holds such large excess amounts of gold beyond what is required under its law or for sound practice one cannot feel altogether free from a risk that some time or other that gold may have its normal consequence by leading to a large expansion of credit, and set on foot a general rise in prices throughout the world. One would naturally prefer, if one could have it, that such a work to stabilise the Indian exchange. I am not postponing on that account, but I think it ought to be that those who have to recommend on questions of policy should realise that there is at the present moment in the world a potential source of disturbance and one does not know how long the policy of carefully controlling the value of gold will persist. It has been carried out with astonishing success for

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some years now and one hopes it will be continued but it is always possible that political circumstances might lead to some change in policy—a change of personnel or other cause. Therefore in forming the policy for India at the present time one must realise that there is in the world at any rate, that element of disturbance. There are of course other elements of disturbance, though perhaps less obvious.

10811 In view of what you have just told us is there any circumstance in current conditions to which, in your mind, weight should be attached in considering whether it is prudent at the present time to undertake a settlement of India's currency problem?—I think the particular influence I mentioned is probably the most important of the uncertain factors of the moment so far as India is concerned, that is to say, what is to be the future value of gold. On the other hand, we must attach importance to the fact that an increasing number of countries have come to the conclusion that things are not too unfavourable to justify the step. It has been done in this country. I think I have quoted a speech of the Chancellor of the Exchequer in which he said that we appear to have entered upon a period of greater stability throughout the world than before. Probably it is unavoidable that there should be some risks and on the whole it is for the Commission to weigh up whether the risks are sufficiently great as to justify India adopting, when her internal conditions are sound, a policy of further waiting, when such a policy has been set aside by countries whose internal conditions are less sound.

10812 Would you be prepared to give an answer to that question yourself? Would you be prepared to say whether it is advisable to wait or whether the times are ripe for a solution of the problem?—I should feel more confident if I had had the opinion of some of the authorities who were likely to know more definitely than I do what is to be the policy of the great central banks in this matter. If I was assured by such an authority as the Governor of the Bank of England that he did not anticipate any change in the policy which has been prevailing for the last few years, then I should say that India would be right in accepting whatever measure of risk there was in adopting a policy of stabilisation at the present time.

10813 I understand you to couple that with the reservation that it is not prudent to make up your mind that the time is ripe so to deal with the Indian currency problem as to introduce a new element of uncertainty into that most uncertain factor the world's gold supply?—I certainly attach importance to that—that we should not introduce another unknown variable into a world where there are quite enough unknowns already.

10814 And a variable in that factor of the equation which is already the most unknown?—Just so.

10815 I notice that in the last paragraph under the second head you deal with the question of the disturbance to the world's silver market, and the possible reaction on the silver interests of the United States of America. That is a matter on which perhaps we might wish to get evidence from special sources, but I notice you say "The proposal really means that the silver which the United States were induced to supply to India at a time of great emergency is to be thrown back on to the market." Could you explain that? I am not sure I entirely follow how that comes about?—During the war, as you are probably aware, there was grave danger at one time of the Government of India having to declare the notes inconvertible owing to the drain on its silver supplies. It is safe to assert that they would have been unable to avoid inconvertibility if it had not been for the timely help that the Government of India were able to obtain from the Government of the United States through the good offices of His Majesty's Government here. The American Government held, as they still

hold large supplies of silver acquired under Acts of the American Legislature, and they were induced to break up a number of silver dollars and sell the button to India for the replenishment of the reserves and the supply of currency to the people of India. That Act was a very remarkable piece of legislation. It is referred to in a book recently published called "The Formative Period of the Federal Reserve System," by Governor Harding from which it is perfectly clear the Americans took a special pride in this Act. It was passed with extraordinary expedition. Governor Harding says—I am quoting from his book—"In ordinary circumstances the passage of such a Bill would have required several years if indeed it could have been put through at all. The Pittman Act was perhaps the most unique of the war measures and its passage relieved a situation fraught with the greatest responsibilities." That is, as I say, a quotation from a book which I happen to have been reading lately. It brings out the fact that it was a piece of legislation in which America took particular pride. By it the Americans rightly considered they had rendered exceptional and signal service to Great Britain and India in the course of the war. When they passed that legislation which Governor Harding says in ordinary times they might not have got through at all, they had to take account of their own silver interests. The Bill was treated with great secrecy and very few people knew about the motive which prompted it because it was considered highly undesirable that the risks of inconvertibility in India should become the subject of public comment, but in order to get it through, the American Government had to agree to re-purchase at the price of a dollar an ounce American mined silver of the quantity they were giving up for the use of India. They implemented that obligation after the war by purchasing American mined silver at the price of a dollar an ounce to fill up the gap which had been caused in their silver reserves. During a considerable part of the time during which those purchases were in progress the world price of silver was substantially below that at which they had contracted to their American silver producers to re-purchase. In view of that history, I think it is clear that the idea of dealing a serious blow to the silver market would come with peculiarly ill grace from India which had so much benefited from the action of the United States Government in the course of the war. My contention is that any appeal to the American Government for assistance in regard to the gold aspect of the case would be bound to raise consideration from them as to the bearing of the proposals on the American silver interests. I cannot say, of course how that would appeal to the Americans or what action they would take or what proposals they might suggest, but I can quite conceive that the question of goodwill in respect of gold would be coupled with some request enabling the American Government to give compensation to their silver interests who would be prejudiced—as they obviously would be prejudiced—by such a scheme.

10816 You mean the United States would be in this frame of mind they would say "We helped you when you were in a tight place with silver which you had from us and now you seek to return that favour by slaughtering the silver market?"—I think that is the ordinary way in which one would look at it. You have to remember that in the United States the silver interests have for a very long time played a most important part in politics and there has been a series of Acts of which the Pittman Act was the last, of which the object was to give some support and protection to the American silver producing industry.

10817 Have you given any thought in this connection to the reaction of the silver market and the price of silver upon copper and other base metals lead and tin?—In so far as silver is produced in association with these other metals one would assume that the output of silver would to that extent be

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likely to continue, in spite of the decreased demand for it, and that those undertakings which were producing silver in association with other metals would find their profits affected. I suppose if conditions enabled them to do so—I do not know whether they would—they would try to recoup themselves as far as possible for their losses by raising the prices of the other metals, but it does not seem that there would be any particular ground for the expectation that the production of silver would be materially reduced, as it is produced to such a large extent as a by-product. I think in regard to this question of silver, of course, one has to take account very much of the large amount of silver held in the form of ornaments in India, and I myself attach importance also to the position in China. Not only would India be affected so far as her exports to China are concerned (and particularly in regard to raw cotton from Bombay, which is probably the most important of them) owing to the fact that as the Chinese exchange is a silver exchange the Chinese would find themselves in a less favourable position for importing, but it is also an important matter when a very large population such as that of China is subjected to a capital levy of perhaps as much as 25 per cent, for that is what might happen. All the savings of a large neighbouring population of an important power—China—would be subject to such a levy, in effect and it is quite evident that our political relations with China would be bound to be affected by a thing of that kind. Seeing how disturbed the country is at the present moment and the difficulty there is at maintaining decent political relations with China, I think the Foreign Office might have something to say on a question of policy which might have the effect of inflicting a capital levy throughout the length and breadth of that country.

10,818 Apart from political considerations, the material reaction you would apprehend from this fall in the value of silver, so far as China was concerned would take the form of a diminution of the trade between India and China?—It would affect the power of China to buy from India.

10,819 There would be a diminution of the Chinese capacity to absorb Indian goods?—That is so. It would, of course, affect also and equally Chinese power of purchasing from other gold countries.

10,820 Passing now to the paragraph in which you deal with the cost of the scheme, your last words are "Obviously, if the real assets are excessive under to-day's conditions and admit, either in the aggregate or as regards non-interest bearing amounts, of safe reduction, then the apparent saving from associating the reduction with the introduction of a gold circulation is to that extent illusory." I have gathered from your memorandum that your principal criticism of the estimates of the cost of the scheme as prepared by the Finance Department in India is that there is brought in against the cost a saving, but that saving is one which might be effected in any case according to the assumptions made, whether the gold circulation were adopted or not, and therefore that it cannot be regarded as specifically a reduction on the cost of the scheme for a gold circulation?—Yes. I think for example, the metallic reserve to-day on the figures on which we have been working is obviously higher than is required for safety, and the fact that it is as high as it is to-day is merely a reflection of the presence of silver which returned in the last period of depression. That silver is likely in the ordinary way to go out and its place to be taken by interest bearing securities as in fact, from the figures at the end of the memorandum is already happening to some extent. So far as that is true it is clear you cannot regard the accidental fact that we have to-day too much silver as being itself any ground for assuming that under a gold currency you would make an important profit from getting rid of it.

10,821 We may put it in this way. Here is a potential saving to be made. If that potential saving is eaten up, as it were, in starting a gold circulation, that must be reckoned as part of the cost of introducing the gold circulation?—Certainly.

10,822 It is on that basis that you argue that the cost of introducing the gold circulation must be put as high as three crores?—Yes. I regard that as quite a low estimate.

10,823 The only question I would ask on the subject of the alleged defects of the pre-war system and your analysis of those defects is this. I understand your general observation with regard to these alleged defects, when they are considered in relation to the proposals of the Finance Department, is that you admit that to some extent there have been defects in the exchange standard system, but hold they are defects which can be remedied by the establishment of an exchange standard on a better basis, they are not inherent?—That is so. It is clearly the case, at any rate, with regard to the defects I have lettered C, D and E.

10,824 It is not really an issue between an exchange system and a full gold system, but an issue as between a gold exchange standard and a sterling exchange standard?—That would be so, yes.

10,825 As regards A, would it correctly interpret your view to say that the difficulties owing to the large silver content of the rupee must be inherent in any system which contemplates the continuance of a very large volume of silver rupees of the present fineness in circulation?—In theory that is so. Even in the country we experienced a similar difficulty during the War, which led the Government to reduce the fineness of our own subsidiary silver.

10,826 (Sir Henry Strolach.) Under the first head of your Memorandum No. 4, you refer to the optional issue of gold coin in India; i.e., to give gold coin upon occasion. Would you regard that as a part of a monetary system?—When I used that phrase I was thinking rather of a conceivable recurrence of the sort of emergency we had in the War, when there were difficulties in acquiring silver at a price consistent with the maintenance of the par of exchange. In such circumstances it might be of assistance to the Government to have a means of making payments in gold. I did not contemplate there would be any habitual offer of gold by the Government in payment. The word "occasion," as used there, really means in the event of some unusual emergency.

10,827 Just as the Government of India might, in certain circumstances, issue nickel coin for silver coin if the emergency arose?—Certainly.

10,828 In that sense?—Yes, the only difference being that the gold would be more likely to be acceptable to the recipient.

10,829 I follow that. You mentioned, in the course of the answers you gave to the Chairman, that the three forms of money in circulation in France worked satisfactorily, that no trouble was experienced in the working of that system. I wonder not herself feel any immediate inconvenience, being that Union were caused serious inconvenience? They loomed in the distance. Let me say this to make the point clear. When there was a threat of war in 1914, Switzerland was swamped with five-franc pieces, which were legal tender both in Switzerland and other countries of the Latin Union, and that ultimately France is not a similar situation money one convertible into the other, in circulation difficulty arose in the case you mention owing to the fact that more than one country was involved, and that one country was going to be a belligerent by a transfer of coin which was legal tender, so that countries from one to the other the person doing so felt he was likely to get better value in gold or a

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better exchange and was therefore protecting himself against depreciation. In the case of India that particular difficulty, which was due to the fact that both Switzerland and France were members of the Latin Union, is not likely to occur. I can only answer your question by referring to the period from 1898 to 1914, when this convertibility to which you refer was in force in India. It seemed to work satisfactorily then, Indian trade made very great progress, and the internal currency requirements of the country seemed to be met satisfactorily.

10,830 Is it a fact that the difficulty only arose in the case I mentioned because two countries were concerned? The difficulty really arose, I take it, from the desire of the French people who held five-franc pieces to convert them into gold?—Yes.

10,831 If you had in India a rupee coin which was convertible into gold, would not the effect of having such a coin in circulation be to make people convert it into gold in India when danger loomed in the distance?—The Government of India have not hitherto undertaken the obligation to give gold for silver in India, and I myself in these Memoranda have not contemplated that they should undertake that obligation. The obligation the Government of India has undertaken has been (with a degree of formality which may or may not be capable of improvement) to give gold exchange in this country for any full Indian legal tender.

10,832 That is in practice, equivalent to gold?—In normal times it is equivalent to gold. I do not think any inconvenience arises from the fact that the note is convertible into silver and silver into notes. That particular obligation did not cause any inconvenience in the past, the silver reserve was always adequate to exchange notes for coin if required.

10,833 Would you in theory regard a system by which a paper note is convertible into another token coin which depends on the limitation of its issue for its value as desirable?—I do not regard that as an ideal system in itself at all, I only regard it as having been a good thing in the past as it promoted the acceptability of the note. One has to remember that India has been used to the rupee for generations, and when it was a question of stimulating the use of the note, a very important factor was that the note should be readily convertible into the coin with which the people were familiar. From that point of view the peculiarity of the convertibility of a paper token into a silver token played an important part in bringing the Indian currency system to its present state and in promoting the note-using habit. It must be remembered the silver token in India occupies a rather exceptional position because it has been for so long the standard coin of the country, the coin with which the great bulk of the transactions of the people of the country are carried out, and with which they have been familiar for so long. In that respect it possesses a different character from the silver token of most other countries.

10,834 Would you regard it as essential that the note should continue to be convertible into the other token coin—the rupee—if the note itself is convertible into gold, or gold exchange?—In that connection you have to deal with different kinds of people. I take it the prime interest of the people who are conversant with these questions and who are concerned with foreign exchange is that the local currency should be stable in foreign exchange. On the other hand from the point of view of the ordinary mass of the people, who are not conversant with these things but who are ignorant and untutored I should think it is desirable that the note should be capable of conversion into local metallic currency, in other words the internal convertibility of the note has an importance in India which does not arise at the present time with us in this country. I have not had an opportunity of mixing with the peasantry in India or knowing what view

is likely to be held by officers and others who are familiar with the habits of the peasantry, it seems to me that kind of question can only be answered satisfactorily by people who are familiar with the habits of the untutored classes in the villages in India. My own limited experience suggests that the grant of free convertibility was very important in India, and Finance Members have always endeavoured to increase the popularity of the note by increasing the opportunities for conversion.

10,835 Another question with regard to the present price of silver. The Chairman has already stated that the present price of silver seems low, having regard to the general rise in prices, and you mentioned you did not think there was great likelihood of it rising unless the purchasing power of gold were to fall. I seem to recollect that in a report furnished by Messrs. Carpenter and Cullis—(which was an Appendix to the Balingham Smith Report)—they forecasted an increasing demand for silver, and therefore suggested there was a likelihood of the price of silver rising, independently of the possible depreciation of gold. Could you enlighten us on that?—I should like to refresh my memory on that question, but my recollection of that report, which was written in 1919, was that they anticipated at that time that the price of silver was going to remain at an abnormally high level for the years after 1919, but no sooner was the ink on their report dry than the price of silver began to tumble, and the calculations they had been at great pains to make were falsified by the course of events. The world's production of silver seems to be pretty stable, judging from such statistics as I happen to have here. Before the war it was 230,000,000 fine ounces. The estimate applied to me for this year is 230,000,000 fine ounces, and last year the figure was 230,000,000 fine ounces. I suppose of course, there has been a reduction in the demand for silver. The absence of demand on the part of the Government of India for silver for coinage has been an important factor, and other countries have had to give up their silver coinage to a large extent and are only now retrieving them. At the present moment the fact that the Government of India holds 80 to 90 crores of silver is an influence which at least for the present period militates against any substantial rise in silver prices.

10,836 But you would not dismiss the possibility of a rise apart altogether from the depreciation of gold?—No. I could not be so rash as to dismiss it. Before the War people would have been inclined to discount the idea of silver ever going to 80s. with great confidence.

10,837 In one part of your Memorandum you say that if Indian currency had been rigidly linked to gold she might have fared worse than she did by allowing the exchange to rise, because prices would have kept stable?—I would rather say because the range of fluctuation was, *pro tanto*, reduced.

10,838 I am not quite sure my figures are correct but I have figures before me showing that the wholesale price indices of the United States stood in January, 1920 (taking the 1913 figure as 100) at 243. They rose to 272, and finished up at the end of the year at 189. On the other hand, Indian prices—converted into gold, which you have to do for purposes of comparison—stood at 290 at the beginning of the year rose to 293 and fell finally to 140. That shows far wider fluctuations than the United States' prices, and rather contradicts the statement you made that prices were relatively much more stable in India than in a gold-using country like the United States?—We were concerned in this matter with the internal price level as measured in internal currency to which the people were habituated. 1920 was a year in which the rupee exchange was very high and you have converted it into a gold rise proportionately high. If you look at it from the point of view of the conventional reckoning of prices in terms of rupees the result will, I think, be different.



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10,839 I agree, but have not you got to measure the price fluctuations in gold?—That is certainly one important way of looking at it, but I think the other is also an important way of looking at it

10,840 You want to suggest that, the big being so great in the adjustment of internal prices they have not suffered so much?—Quite so

10,841 But of course the external trade must have suffered very considerably?—Yes

10,842 Because of the fact that their currency was not linked to gold, and the exchange was allowed to fluctuate?—That is so

10,843 Under (D) of your Memorandum you refer in the second paragraph to contraction of the internal circulation, and you say "It is part of accepted theory that contraction of the internal circulation should be the regular sequel of with drawings of sterling from the reserves." Can you give us any details of the happenings in 1920 (I believe it was) when some £50,000,000 sterling of Reserve Coupons were sold? To what extent was the rupee circulation actually contracted? Was it contracted by the equivalent of £50,000,000?—That is a question which I have been examining, and if the Commission wish it I could put in a short note on the question which might be of interest to them showing the capacity of the Indian market to stand contraction, and also bringing out, in a rather different way from Mr Denning's Memorandum, the amount of the contraction which occurred

10,844 (Chairman) We had a memorandum from Mr Denning on the subject. If you have anything which could be usefully added to that it would be of interest—I could tell you some points of interest now. I find that allowing for the reduction of the note issue in 1920 and the return of silver from the public, there was a contraction, if you take the first ten months of the year covering the period of the sale of reverses of something in the neighbourhood of Rs. 32 crores. Actually in that period the figures indicate that the contraction should have been about Rs. 51 crores. There would therefore be a deficiency from the desideratum of something like 12 crores, which was made up mainly by the issue of government debt created *ad hoc* to the reserve. What I would like to bring out is that there was a very considerable amount of contraction in the course of that year though it fell short, by a figure which could be calculated in different ways, of what was desiderated by the correct working of currency theory. One goes on from that to examine how far this contraction of circulation affected the total cash and credit available in the country, and if you examine the deposits of the Presidency Banks, the Earhanga banks and the principal Indian banks you find (though there is probably a certain amount of overlapping because the other banks used to keep certain balances with the Presidency Banks) that on December 31st, 1919, the deposits of all those banks were about 209 crores while on December 31st, 1920 they had gone up to practically 223 crores, or an increase of 24 crores. One comes to the conclusion, therefore that there was an increase in the credit available which at any rate to a considerable extent, set off the reduction of cash withdrawn from the market by the sale of reverses and the subsequent locking up or destruction of currency. One then turns to the question of why it was not possible to effect a larger amount of contraction and examines the discount rates of the Presidency Banks. In that year the Bank of Bengal's rate never rose beyond 7 per cent which prevailed from February to June, and the rates of the Bank of Bombay and the Bank of Madras rose to 9 per cent. I will give the Commission these figures later on. One might argue at first sight that these rates which later on fell as low as 5 per cent, in the case of the Banks of Bengal and Bombay did not accord with a policy which was designed with a view to supporting the exchange through contraction of credit, but we are told by the Controller of Currency at the time that there was very considerable stringency in the bazaar,

and the average rate of accommodation as calculated from the shroffs' discount rate for traders' bills, ranged from 8 to 11 per cent. Mr Denning says the currency was not contracted to the full extent of the amount realised by the sale of reverse coupons, as it was feared the shortage of money which might have thus been caused would seriously affect business generally. We must apply that remark, from which I see no reason to differ, to the attitude taken by the banks. They could not stiffen the rate more than they did without jeopardising an interest which was wider and bigger than the interest of exchange. The facts seem to show that we have to face a fundamental difficulty, as things are in India at present, in securing credit contraction on the scale and with the promptness which may be required to keep the situation under control. I do not want to go now into the question of the various difficulties in 1919 and 1920, which were to some extent peculiar and exceptional, such as the Government deficit and the large issues of Treasury Bills, but one can arrive at certain conclusions which bear on what Sir Henry was saying—that if at any time we were to suspend remittances for Government on account of exchange weakness, we ought at once to bring those remittances to the account of reserves, so as to secure the necessary contraction instead of dealing with them through the Treasury balances, which merely means that money withdrawn from the market in India goes to swell the Government deposits at the bank. It is obvious that in so far as you do that you merely improve the bank's cash position and do nothing to check the expansion of credit. I think that is a point which at some stage of this inquiry requires some examination. I am of opinion that past practice in this matter has not altogether accorded with what correct theory and practice require. The extent of the possible contraction at any time is not so much likely to be governed by the strength of the sterling reserves as by the capacity of trade and business to endure the strain. That is another lesson one learns from the events of 1920. The reserves were very large and a lot of currency could have been drawn off, but trade could not stand it.

10,845 It is a question of which is the cart and which is the horse, is it not?—Yes. The Central Bank, if it is charged with the duty of currency and credit control, will be working owing to the underdeveloped conditions of credit, under serious disadvantages as compared with Central Banks in countries with a highly developed credit organism. In particular I might mention one obstacle to sound working due to the existence of the stores of currency which have been referred to at various times, and which may always come out and fill up the gaps you are trying to create by currency contraction. I tell you can really get a system under which people will give up the idea of holding rupees as a store of value in themselves, and will be content with a pass-book any control of credit in India is likely to be affected by the existence of those stores of value. Those are some of the lessons which I have derived from a study of the figures of 1920, and if you think it will be useful I will put in a short memorandum on this point, bringing them all together.

10,846 (Chairman) I think it would be of great interest.

10,847 (Sir Maneckji Dadabhai) I would draw your attention to the last paragraph under (E), where you state "Pre-war experience suggests that if India must for long years to come have a full legal tender metallic circulation, the requirement of the country including the desideratum of the gold exchange standard." In your Memorandum you have not indicated the lines of such appropriate development may I ask you briefly to an appropriate development on the lines you think standard should take?—Some of the points to which you refer will be found to be covered in some of the other Memoranda.

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[Continued]

10,839 I agree, but have not you got to measure the price fluctuations in gold?—That is certainly one important way of looking at it, but I think the other is also an important way of looking at it.

10,840 You want to suggest that, the lag being so great in the adjustment of internal prices they have not suffered so much?—Quite so.

10,841 But of course the external trade must have suffered very considerably?—Yes.

10,842 Because of the fact that their currency was not linked to gold, and the exchange was allowed to fluctuate?—That is so.

10,843 Under (D) of your Memorandum you refer in the second paragraph to contraction of the internal circulation, and you say "It is part of accepted theory that contraction of the internal circulation should be the regular sequel of withdrawal of sterling from the reserves." Can you give us any details of the happenings in 1920 (I believe it was) when some £50,000,000 sterling of Reserve Councils were sold? To what extent was the rupee circulation actually contracted? Was it contracted by the equivalent of £50,000,000?—That is a question which I have been examining, and if the Commission wish it I could put in a short note on the question which might be of interest to them showing the capacity of the Indian market to stand contraction, and also bringing out, in a rather different way from Mr Denning's Memorandum, the amount of the contraction which occurred.

10,844 (Chairman) We had a memorandum from Mr Denning on the subject. If you have anything which could be usefully added to that it would be of interest?—I could tell you some points of interest now. I find that allowing for the reduction of the note issue in 1920 and the return of silver from the public, there was a contraction, if you take the first ten months of the year covering the period of the sale of reserves of something in the neighbourhood of Rs 30 crores. Actually in that period the figures indicate that the contraction should have been about Rs 51 crores. There would therefore be a deficiency from the desideratum of something like 12 crores, which was made up mainly by the issue of government debt created *ad hoc* to the reserve. What I would like to bring out is that there was a very considerable amount of contraction in the course of that year, though it fell short, by a figure which could be calculated in different ways of what was desiderated by the correct working of currency theory. One goes on from that to examine how far this contraction of circulation affected the total cash and credit available to the country, and if you examine the deposits of the Presidency Banks, the Exchange Banks and the principal Indian banks you find (though there is probably a certain amount of overlapping because the other banks used to keep certain balances with the then Presidency Banks) that on December 31st 1919, the deposits of all those banks were about 209 crores, while on December 31st 1920, they had gone up to practically 223 crores, or an increase of 14 crores. One comes to the conclusion, therefore that there was an increase in the credit available which at any rate to a considerable extent, set off the reduction of cash withdrawn from the market by the sale of reserves and the subsequent locking up or destruction of currency. One then turns to the question of why it was not possible to effect a larger amount of contraction and examines the discount rates of the Presidency Banks. In that year the Bank of Bengal's rate never rose beyond 7 per cent which prevailed from February to June and the rates of the Bank of Bombay and the Bank of Madras rose to 9 per cent. I will give the Commission these figures later on. One might argue at first sight that these rates which later on fell as low as 5 per cent in the case of the Banks of Bengal and Bombay, did not accord with a policy which was designed with a view to supporting the exchange through contraction of credit but we are told by the Controller of Currency at the time that there was very considerable stringency in the bazaar,

and the average rate of accommodation as calculated from the cheques' discount rate for traders' bills, ranged from 8 to 11 per cent. Mr Denning says the currency was not contracted to the full extent of the amount realised by the sale of reserve councils, as it was feared the shortage of money which might have thus been caused would seriously affect business generally. We must apply that remark, from which I see no reason to differ, to the attitude taken by the banks. They could not stiffen the rate more than they did without jeopardising an interest which was wider and bigger than the interest of exchange. The facts seem to show that we have to face a fundamental difficulty, as things are in India at present, in securing credit contraction on the scale and with the promptness which may be required to keep the situation under control. I do not want to go now into the question of the various difficulties in 1919 and 1920, which were to some extent peculiar and exceptional, such as the Government deficit and the large issues of Treasury Bills, but one can arrive at certain conclusions which bear on what Sir Henry was saying—that if at any time we were to suspend remittances for Government on account of exchange weakness, we ought at once to bring those remittances to the account of reserves, so as to secure the necessary contraction instead of dealing with them through the Treasury balances, which merely means that money withdrawn from the market in India goes to swell the Government deposits at the bank. It is obvious that in so far as you do that you merely improve the bank's cash position and do nothing to check the expansion of credit. I think that is a point which at some stage of this inquiry requires some examination. I am of opinion that past practice in this matter has not altogether accorded with what correct theory and practice require. The extent of the possible contraction at any time is not so much likely to be governed by the strength of the sterling reserves as by the capacity of trade and business to endure the strain. That is another lesson one learns from the events of 1920. The reserves were very large and a lot of currency could have been drawn off, but trade could not stand it.

10,845 It is a question of which is the cart and which is the horse, is it not?—Yes. The Central Bank if it is charged with the duty of currency and credit control, will be working, owing to the unbalanced conditions of credit, under serious disadvantages as compared with Central Banks in countries with a highly developed credit organism. In particular I might mention one obstacle to sound working due to the existence of the stores of currency which have been referred to at various times, and which may always come out and fill up the gaps you are trying to create by currency contraction. Until you can really get a system under which people will give up the idea of holding rupees as a store of value in themselves, and will be content with a pass-book any control of credit in India is likely to be affected by the existence of those stores of value. These are some of the lessons which I have derived from a study of the figures of 1920, and if you think it will be useful I will put in a short memorandum on this point, bringing them all together.

10,846 (Chairman) I think it would be of great interest.

10,847 (Sir Maneekji Dattabhai) I would draw your attention to the last paragraph under (E), where you state "Pre-war experience suggests that if India must for long years to come have a full legal tender metallic circulation, the requirements of the country, including the desideratum of stability, can be met by an appropriate development of the gold exchange standard." In your Memorandum you have not indicated the lines of such appropriate development, may I ask you briefly to enlighten the Commission on the lines you think an appropriate development of the gold exchange standard should take?—Some of the points to which you refer will be found to be covered in some of the other Memoranda.

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[Continued]

10,848 I noticed that?—The principal respect in which I think the pre-war system was defective lay in the fact that although the Government had accepted the obligation to give rupees without limit for gold or gold exchange at a fixed price there was no corresponding obligation to give gold exchange without limit for rupees at the appropriate price. When the ordinary current of Indian trade was temporarily reversed the habit was for the Government to come out with an offer of a limited and stated amount of Reverse Drafts which might or might not be adequate to maintain the exchange. Until 1920 the amount so offered did in practice prove sufficient from time to time to take off the predominant currency from the market, but in 1920 though there were good reasons for the policy, the amounts offered were clearly not sufficient, and we had the peculiar experience of the Government selling drafts at one rate and the market rate of exchange being at a different rate. That is the situation—obviously a very undesirable one—which I think could be met and would not arise if the Government or the bank or whatever authority is concerned were to undertake to supply gold exchange without limit at the appropriate price.

10,849 The result of your argument is that the effectiveness of the gold exchange standard in actual practice depends on the action of the Secretary of State and the Government of India in selling or exchanging rupees for gold or sterling and sterling for rupees?—Yes, just as the gold standard depends in practice on the action of the authority charged with selling or buying gold at appropriate prices.

10,850 When the silver standard was abandoned in 1893, the fundamental basis of the gold exchange standard was the linking of the rupee to the sovereign at a fixed fraction of 15 to 1, was it not?—In 1893?

10,851 Yes.—That was the fundamental basis.

10,852 Then does it not logically follow that if it is impossible to maintain that ratio the basis of the gold exchange standard has failed in its most important aspect?—I would not adopt that conclusion, because the system seemed to work very satisfactorily from 1898 to 1914, and the conditions that upset the working of that system were such as shook the gold standard in countries where it was firmly established. I would ascribe the breakdown of the Indian exchange to a much more far-reaching cause than that, I would ascribe it to the fact that the great countries of the world, which were habitually free markets in gold, decided to bottle up their gold, with the result that countries dependent on them for gold found they could not get their supplies of it. That set in motion a number of consequences which drove the rupee away from its moorings.

10,853 Then you have no remedies to suggest to prevent a similar state of affairs happening again, and India being placed in the same position in the future?—I can only suggest measures which will prevent the whole world being drenched in blood again—the development of peace-loving organisations which, if they continue, should also prevent India suffering from the kind of danger to which you refer. The disaster to currency throughout the world was only a small disaster in comparison with the loss of life and of happiness caused by the Great War, and I think if the causes of these evils are removed the danger to the currency will probably be removed by the same process.

10,854 Then we can safely assume, from what you say, that the breakdown of the system did not originate in India or was not due to any war expenditure incurred by the Government of India?—I think, broadly speaking, that is true. The break down was due to world wide causes.

10,855 Was not the main cause the acceptance of payments due to India in London in sterling, which could not be transmitted to India during the war period? Was not that the main cause of the break

down of the exchange?—As I say, I think the main cause of the breakdown of the standard was that countries declined to part with their gold and therefore some other means of payment had to be invented—something other than the normal method. Moreover under the circumstances of the war the opportunity of discharging a portion at any rate, of India's favourable balance by means of commodities was very greatly diminished and thus the strain was thrown more and more upon metals the principal and most valuable one of which was not available, or was only available to a trifling extent, for the purpose of liquidating India's credit balance.

10,856 You have spoken about the difficulties in finding gold in your Memorandum. Is it not a fact that a form of interest taken like rupees, not being exchangeable into gold is a permanent cause of the hoarding of rupees in India and the unavailability of gold?—I do not regard it as being in any way necessary for the satisfactory working of a currency system that there should be gold metallic coin in circulation. I should not by any means regard that as essential. What appears to me to be necessary is that when there is a redundancy of local currency, the Government or the authority charged with the duty should have the means and the will to withdraw the local currency to the extent required by the circumstances. That seems to me to be what is essential.

10,857 India, with her favourable trade balances and being a creditor country, is in a position to demand that the nature and form of her currency shall be what she wishes, is not that so?—She is normally in a position to determine the nature and means of payment in which her favourable balances shall be liquidated. Let me put it in this way: she is in a position to demand that her favourable balance should be liquidated in whatever form she wishes.

10,858 In determining that question, is it necessary for India to pay any attention to any outside economic disturbances which may take place, provided those disturbances are not of a nature or character to react on Indian policy?—It is hardly possible seeing the important part that India plays in world trade and finance, that any changes which affect the world outside on a large scale should leave India unaffected. It is therefore not possible to attach any very precise meaning to the idea that India can create an upset outside and not herself feel the reactions of that upset. India plays such an important part in affairs that, if she upsets the commodity value of gold throughout the world, she cannot escape from the reactions herself. Therefore in this matter India, in considering her own interests, cannot ignore what happens elsewhere, because what happens elsewhere will affect her. I do not know if I have made my meaning clear.

10,859 Yes. You mean to indicate that India's interests necessitate the consideration of world wide interests and the avoidance of world wide economic disturbance, and you think that her policy should be formulated so as to be on the lines of least resistance?—I would rather put it in this way. India cannot afford to be indifferent to what happens outside, because of its reactions on herself. She can consider this question, therefore, entirely from the point of view of her own interests, but her own interests require that she should take account of reactions elsewhere.

10,860 But these reactions must be of such a nature as to affect her internal economy. Merely because these disturbances are going to affect, say, the United States of America, because the United States may have to part with gold if gold is demanded in India, and the better price which India is willing to pay for it may cause it automatically to move, would be no ground for India to take into consideration in arriving at a determination of the

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[Continued]

problem?—You are assuming, I take it that those movements would have no effect on India herself, and she need not bother about what happens outside in that case?

10862 Yes—I am not at all sure how far that is so nowadays. We have entered on a period of co-operation which is represented by the League of Nations and other organisations of that sort. I do not know how far to-day people would hold that a great country could properly pursue a purely individualist line. Such conduct belongs to a large extent to the state of things which prevailed before the war. Actually, of course in this particular proposal you are yourself making you have to remember it is always open to the country from which you expect to get your gold to put an embargo on gold exports. Such a country has therefore in its hands a weapon to the possible use of which you must not be blind.

10863 But the main volume of our trade is with the United Kingdom. With the United States, as you are aware the volume of our trade is comparatively small?—Yes.

10864 How will that affect the situation?—This country cannot be indifferent to what happens in the United States. If for example the United States had to protect itself against a drain of gold for India by putting on a gold embargo it might be taken as certain that this country would have to do likewise under present conditions because the gold reserves in this country would not be capable of meeting the Indian demand assuming as we do now that America had declined to meet it. This country would therefore in such a case have to defend itself. I am only dealing now with hypotheses, you asked me to do so.

10865 Yes. I see your point but were not these considerations taken into account by the United Kingdom when it lately went back to the gold standard?—No. I think it may be safely said that the possibility of a large additional demand for gold for the purpose of promoting a gold circulation in India was not a consideration before the authorities when they decided to re-establish the gold standard in this country. I am not one of those who was in any way responsible for that decision, and you will have opportunities no doubt of discussing the facts from the people who were responsible but my own impression is there was no such idea. I think that can be shown by looking at the dates on which these things were done. The first any of us heard of this project of a gold circulation was in connection with the labours of this Commission whereas the decision to return to the gold standard in this country was taken in April of last year. I infer from that that the idea of having to supply 100 crores of gold for a project of this kind was not before the authorities at that time.

10866 According to your view then India could never go in for the adoption of a full gold standard?—I think she has to travel a long way before that idea could be contemplated safely. I myself do not regard the idea of a gold coin in circulation as itself being a good thing. I think it is undesirable and it is out of accord with modern ideas that a country should impose on itself the sacrifice and expense of using as counters for business transactions the most expensive material, or very nearly the most expensive material the world knows of.

10867 I do not quite follow you. I will put it in this way. Will you indicate the lines along which you think India might reach this goal?—The idea of gold currency in circulation?

10868 Yes—Are we talking now of a gold standard or gold currency in circulation?

10869 A gold standard with gold currency in circulation—I must preface my remarks by saying that I do not myself regard a gold currency in circulation as being an ideal to be aimed at. If India were unwise enough to want and were prepared to foot the bill for it, I should have said the method

of procedure would be by the reduction of rupee coinage to the greatest possible extent and probably by the cessation of rupee coinage and the reintroduction of the rupee note. The next step would be the promotion and development of banking facilities up and down the country so as to get back in the ordinary course of events the stores of rupees in the form of bank deposits. Then there would be the eventual minting and placing of gold in circulation. If it were to be done it would have to be done over a very prolonged period with a large amount of preparatory work. I am not prepared to forecast the length of time it would take but I think it would be a very long time, and I think it would be an essential preliminary to any such step to encourage a gradual development of banking business. One should draw back the surplus currency so that there could be no question of any sudden demand for encashment. I do not think this is a thing which can be done in a flash. You will understand I hope that in saying this I am not advocating this step at all. I think it would be contrary to India's interests.

10870 You are opposed to a gold standard for India?—I am opposed to any project which aims at making gold the only unlimited legal tender coin of India, and which involves the degradation of the rupee on the lines discussed in these various memoranda.

10871 Let me pursue this inquiry from another point of view. You know that in India there are large hoards of gold?—Certainly.

10872 Do you expect India's hidden stores of gold can be used profitably for the State unless there is some assurance to India of a gold currency?—I should hope so. I should look at the thing from the point of view of two classes of people. Real confidence in the currency system as it affects the ignorant and untutored masses depends on the facility of being able to obtain the silver coin to which they have been accustomed and in which the people of India have confidence. I should hope that would go on in conjunction with the gradual development of banking business up and down the country so that eventually the currency which is held as a store of value would come back to the banks. That is the first consideration. The second consideration is this. I regard it as all important for the establishment of confidence that the purchasing power of the currency unit should remain stable. I speak of the purchasing power in terms of the commodities are the two requirements to be met as regards Indian villages. There is another class of people whose needs have to be considered and whose needs are different, and that is the class consisting of those engaged in the export trade and external finance. They obviously require that the currency which they use shall have a constant purchasing power internally and also a constant purchasing power of gold exchange. I should have said that if those desiderata were satisfied you had the essentials of a sound currency system in India and there is no need for the introduction of a gold coin as the main medium of circulation.

10873 You cannot really suggest any method of getting this hoarded gold out in India except with a gold currency?—I suggest that with the gradual development of banking business and the increasing habit in India currency held as a store of value—and I include gold capable of being brought to this as currency held as a store of value—in the same class development of banking habits and confidence in the political administration of the country such currency should come back and India will then become a supplier of capital for its own needs on a much greater scale than ever before. I do not consider however there is any necessity to supply a gold coin for circulation for that purpose.

10874 You must have noticed that since the War there has been a large importation of gold into India?—Certainly.

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[Continued]

10,875 You must also be aware that a large quantity of silver rupees has now been substituted by gold as a hoard<sup>2</sup>—Gold has been substituted as a hoard for rupees, yes

10,876 In very large quantities?—I have heard so

10,877 You must also have heard that the desire to hoard gold in India at present and to substitute it for silver rupees is due to the idea that the silver rupee has depreciated and that it is not safe to hoard it?—That is not the reason I have been given for this fact

10,878 It may not be your reasons but I am giving you the reasons which prevail in India at present. Do you think with all these views now prevalent, and very strongly prevalent it is likely that anything short of a full gold currency will meet the requirements of the country and be satisfactory to Indian aspirations?—I have given my reasons for thinking that a perfectly sound currency system, in accordance with modern ideas, could be established without having a gold unit in circulation, and I consider that the real secret of unlocking the private vaults of India lies not in providing a gold circulation, but in the development of sound banking habits. I suggest one of the reasons for the exceptional importation of gold in recent years has been not only the apparent cheapness of gold as compared with what India was accustomed to in pre-war times but also the very high cost of manufactured commodities in the principal countries from which India is in the habit of importing. As manufacturing costs are reduced—and they are being reduced in most countries—I should hope that India would see that her interests lay more in taking commodities of a useful character than in taking gold

10,879 You made a very strong point in answer to the Chairman when discussing this gold currency question that the gold currency would replace the use of currency notes<sup>2</sup>—I suggested it was a danger that could not be overlooked or set aside. I cannot of course, tell you to what extent it would occur, but I gave reasons in answer to the Chairman for holding that it might militate against the development of the note-using habit

10,880 Will you please enlighten me as to this? When the Government issued sovereigns freely during the interregnum, was the use of notes diminished in any way?—It is difficult to say to what extent the issue of gold replaces another form of circulation. I have always been given to understand that the gold issued by the Government did not circulate to a great extent as currency and therefore it went largely either to add to the stores of value held already or towards replacing stores of value previously held in another form. Apparently it has not circulated as currency to any material extent. I am referring of course to the gold issued by Government in the past. But different considerations would arise if the holder of the note were to be given the right to demand gold and if gold became the sole metallic full legal tender

10,881 You have referred to the passing of the Pittin Act and the pride which the Americans took in the passing of this Act, and in reply to the Chairman you stated that this Act was very expeditiously passed and conferred a great benefit on India in allowing her to obtain the silver she required at the right and proper time. I would like to ask you a few questions in this connection. As regards the increased value of silver, you know that silver went up to as much as 7½ during the war. Was not that apparently due at any rate, to the wrong policy adopted by the Government of India in preventing the large stocks of Indian silver being exported to European countries?—At the time when the silver crisis became most acute in India the amount of silver held by the Government was extremely small and India at that time was a creditor country entitled to receive large payments from outside. This seems to make it difficult to understand how currency could be exported on any serious scale without its place being taken by some

other form of currency. Gold was not available at the time, the only currency would have been Notes which, in the absence of silver, would have had to become inconvertible

10,882 My point is that the price of silver went so high because silver could not be produced in the market in large quantities?—Yes

10,883 If the embargo had not been placed on the export of silver there would have been a great inducement to Indians who had hoarded silver in very large quantities to dislodge it and put it into the market, and so the price of silver would not have risen so much?—You have to consider in that case what India would have received in place of the silver she exported. Under your hypothesis India would have been a large exporter of silver. She was at that time a very large exporter of war materials of all kinds, for which there was great difficulty in finding a means of payment. Now you are postulating that in addition to that large quantity of war materials she might also have exported a large quantity of silver. I should be tempted in reply to ask what India would have received payment in? She could not be paid by the import of commodities, because production in the great countries was required for war purposes. She could not get gold. There could therefore have been no means in which she could have received payment, except in the form of inconvertible paper

10,884 May I ask what England did in these circumstances when she got goods from America? She raised loans there. Why were not similar opportunities given to India? Did England give India the opportunity to receive payment in other ways?—I think this country had to adopt the policy of raising credits in America not because she thought it was a good thing but because she was forced to do it. She thereby acquired an obligation which will be a very serious obligation for future generations to discharge. I do not know that India would have found herself in a very satisfactory position if she had merely established a large debt from the world to her, the liquidation of which, as the countries concerned had placed an embargo on gold, would have taken quite a considerable and indeed an indefinite time. And a would not so far as I can see, have been in a position to obtain payment for these extra exports we are now contemplating except in the form of debts due, and in obtaining satisfaction for those debts she would have been largely at the mercy of those to whom she had given credit

10,885 That may have been the situation as far as America is concerned, but do you think if England had floated a sterling loan in India for the payment of Indian exports India would not have taken up such a loan very largely?—At that time the people of India were providing loans on a quite unprecedented scale for the needs of the Indian Government, and for the discharge of their responsibilities in the common cause

10,886 That strengthens my argument—Those loans were all required for the purpose of financing the vast exports from India which India was already contributing to the common cause. I do not know that in addition to those large loans it would have been possible to raise further loans

10,887 You do not think it would have been possible<sup>2</sup>—It is difficult to go back eight or nine years and express a positive opinion but you have to consider the quite unprecedented scale on which loans were raised then

10,888 Indian loans were floated without any limit at that time?—Rupee loans yes

10,889 And they were always well subscribed to?—Yes

10,890 If India had been placed in a position to obtain for her exports payments in other ways—deferred payments by means of loans—does not it naturally follow India would have accepted that?—I think it is a matter of opinion. At that time the progress of the war was uncertain it was unknown how long it would go on. I think it is quite

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[Continued.]

10 906 So that from that point of view our contraction would be automatic as the market required it?—Yes

10 907 On the other hand we would limit the sale of Council Bills to the actual amount of home charges which can be taken for argument's sake as at the present moment round about £40 000 000 sterling?—That is a proposition rather difficult to apply in practice because we do not go out of business on the 31st March, and one always has to look a little ahead. Limiting remittances to the home charges is to be construed in rather a broad sense. I take it in other words you would allow a certain amount of operations in advance in anticipation of home charges coming along otherwise your operations would cease on the 31st March and you will get on to the Indian slack season and start the new year with all your home charges to be remitted yet this would be the season when remittance operations from the point of view of the Indian taxpayer are not usually most profitable.

10 908 When the Finance Minister makes his statement he says that he contemplates that remittances on account of home charges will be at a certain round figure. No-one assumes for a moment that that is correct within £100 000 on an amount of 40 million pounds?—I think you will have to have a considerable margin. Heavy payments at the beginning of the year have to be provided for in advance. I think an interest payment on the sterling debt is due at the beginning of April.

10 909 The Finance Minister can estimate fairly closely what his home requirements are going to be can he not? Let us take that as a hypothetical case.—There are other conditions which must not be overlooked. It is to the advantage of India to avoid external borrowing if she can and therefore if it is possible to draw from India funds for capital purposes instead of obtaining money by sterling borrowing it is to India's advantage to do so. We always budget in practice to close the end of the year with a minimum working balance. We have in practice

a policy which does not involve drawing more from India than is required for home charges in the broadest sense but in particular periods there are considerable sums in hand either for capital purposes or in advance for requirements of the next year. We do not aim at keeping here permanent balances in excess of what is required. Budget estimates are always framed to bring down balances to a minimum because the Government of India finds it desirable to avoid debts in this country as far as possible.

10 910 In the discussions which have taken place in other Commissions and whenever the matter is dealt with either outside or in the papers we are all accustomed to speak of the home charges amounting to round about a given sum—is not that so?—It is so but I think there is very often a considerable inaccuracy and looseness outside which does not take into account means of utilizing surplus funds which may happen to be drawn from India owing to favourable circumstances in the course of the year.

10 911 During last year the home requirements were round about 40 million sterling? Is that correct?—Including capital charges they were about that.

10 912 The sales of additional councils have been provided by the Government of India as against currency? The gold funds here have been invested in securities on this side?—Yes.

10 913 This amounts at the present day to between 9 and 10 crores of rupees?—I think it is 9.

10 914 Instead of that excess amount having been taken by you here and invested in securities let us assume that we ship that amount in actual gold to India as has been done in previous years?—Yes.

10 915 Over a period of years?—Yes.

10 916 And until the gold so shipped shall have accumulated to the amount of 100 million pounds sterling?—Yes.

10 917 (Chairman) That raises a new topic which will probably take some little time to discuss. I think perhaps we had better adjourn.

(The witness withdrew.)

## THIRTIETH DAY.

Wednesday, March 3rd, 1926

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG P.C., D.S.O. D.S.C. M.P. (Chairman)

SIR RAJENDRANATH MOOKERJEE K.C.I.F.  
K.C.V.O.

SIR NORBERT HASTINGS AYLES WARREN, K.C.I.F.

SIR REGINALD MANT K.C.I.F. C.S.I.

SIR MANEKJI BHARAMJI DODIAWOT K.C.I.F.

SIR HENRY STRACHAN K.B.E.

SIR ALEXANDER ROBERTSON MURRAY K.C.I.F.

SIR PANDITAMBAR THAKURDAS K.C.I.F. M.B.E.

M.A.

MR WILLIAM FRANKLIN PRESTON

MR G. H. BAXTER } (Interlocutors)

MR A. ATANGAR }

Mr CYRIL H. KISCH C.B. re-called and further examined

10 918 (Mr Kisch) Before you start may I just refer to one point you asked me to look into last

Monday. The calculation giving 4½ per cent as the yield on the gold standard reserve was made on the

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[Continued]

figures for the year ended 30th September, 1925

The receipts for the year were —

Dividends and discounts	£1,771,109
Accrued interest on Bonds sold	10,676
	£1,781,785

Per cent	4.47
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10, on a Reserve of £40 million

The figures for the half year ended 30th September, 1925, show even a better result the interest receipts being £928,500 or

The estimates for 1925-26 assume a total interest receipt from the reserve of just over £1,800,000, practically 4½ per cent

10,019 (Chairman) What exactly does that cover, so far as the securities included are concerned?—We varied the holding some time ago

10,020 But to what does it apply?—To the £40,000,000 sterling which is held in the gold standard reserve, of which the form of investment can be put before you if you would like to have a statement showing the exact form of holding

10,021 That is the average rate of interest during the period specified on all securities held in the gold standard reserve?—Yes, that is to say discounts and interest. That was, of course, only one item of the three factors in the cost question in regard to which I suggested to you that the figures put before you in India were unsatisfactory. There was first the point that those estimates assumed for the purposes of comparison that the present excess holding of inert metal was permanent. There can be no doubt that they did assume that. Secondly, they assumed that the rate of interest was 3 per cent, whereas I have given you the figures taken from our accounts showing that it is actually 4½ per cent at the present time. I only took 4 per cent in my calculation, allowing for some decline in interest rates. The third item to which some regard must be paid is the effect on the future coinage of silver rupees if the rupee is exploded

10,022 The loss of profits on coinage?—The loss of profits on coinage, because the presumption is that if the rupee is going to be no longer unlimited legal tender, and there is to be a change over from a silver circulation to a gold circulation as far as possible, the future profits from the coinage must be reduced. The actual amount of reduction I took was very small, and hardly affects the item of charge. For that reason I think the estimate of cost I provided errs if anything, on the side of moderation

10,023 To complete your picture, would you feel it necessary to refer to the possible substitution of note circulation by gold circulation, leading to an increase in the amount of gold required above the estimate?—Certainly I provided nothing in my estimate for a possible turnover from notes to gold, which would clearly have an adverse effect on the cost of the scheme for promoting gold currency if it took place. I did not provide for any such turnover but in so far as there was such a turnover there would be a decrease in the investments held in the currency note reserve, and therefore a further element of cost to be faced. I have not included anything in my estimate for that, because it was a hypothesis and I could not give you any figure. I could only state that there was an indefinite and incalculable amount which would vary according to the judgment of different people, and which could legitimately be added to the cost

10,024 Have you also given some consideration to the question of whether a sufficient amount has been allowed for the possible replacement of silver in active circulation by gold?—In so far as that would postpone fresh issues of silver, do you mean?

10,025 Yes?—In so far as that would postpone fresh issues of silver that would mean retardation of the accrual of coinage profits. The other point I wished to mention is that I have sent round to the Members of the Commission through the Secretary a copy of a memorandum dealing with the events of

1920 somewhat on the lines of the sketch I gave at our last meeting on Monday. It has probably not yet been distributed

10,026 (Chairman) It has reached us this morning.

10,027 (Mr. Preston) In order to refresh the memory of the Commissioners, may I just say at the outset that I was dealing, when we adjourned last Monday, with a suggested scheme for a gold standard leading to a gold currency, and my object in submitting that to the witness for his consideration was to deal with questions which had been addressed to him by Sir Menckin Dadabhai, and his replies to those questions. I had already mentioned one or two points, but I think perhaps it would not be out of place if I were to recapitulate briefly what I have already dealt with. My first postulate was that we should (1) stop all further coining of rupees, and (2) future issues of notes should be gold mohur notes, convertible into gold for export purposes only, such notes to be fully convertible into rupees. One of the great objections which has been raised to the old gold exchange standard as practised in India prior to the war was that it was capable of mismanagement, and one of the greatest distractions from that system was that it did not provide for a complete contraction of currency. If under a new scheme a gold mohur note was issued, convertible fully into gold for export purposes only, could that, in your opinion, absolutely remove any contention that contraction of currency would no longer be possible?—In so far as there was strict conformity with the theory that on the tender of notes in exchange for gold for export the notes were destroyed, and the gold exported, what you say would apply, but you must realise that under the scheme you have outlined there will still be a reserve known as the gold standard reserve, and that therefore it would be open to the authorities, if they deemed it necessary to do so, to borrow from the gold standard reserve, and in that way maintain the note circulation. For example, the resources held in the gold standard reserve could be transferred to the paper currency reserve, and thus it would be possible for the authorities to maintain the currency at the same level. I must therefore answer that question by saying that in itself it does not provide complete security on paper, there would still be something in the discretion of the authorities. I am not implying that that is necessarily a criticism of the scheme, because I believe myself that on the gold standard as worked in most up-to-date countries, the central banking authorities have various means for relieving an excessive stringency that may be caused by the export of gold. For example, it is open to the Bank to buy securities, and thus to increase the funds at the disposal of the market

10,028 That is exactly what my point was. The authorities have power to do it, but they never exercise that power. Under this scheme the holder of a gold mohur note, if exchange fell and had got to export point, would have no authority who could deny him his right to tender notes, and ask for gold for export purposes. There would be no question of an authority utilizing its discretion?—There could be no question of an authority utilizing its discretion in the sense of refusing gold to the tenderer of the note, but my point was that there were other means of maintaining the note circulation

10,029 Just so. I add to what I have already said that such notes would be fully convertible into rupees, i.e., there is no question at all about altering the tender of rupees in any way. Then I add two sections which are really used more for explanatory purposes than for any other reason, and which I have called (a) and (b). (a) is "For the purposes of this section it shall be understood that 'export' means gold shipped from Calcutta and Bombay to London." That is important, because the point has been raised as to what really does constitute export. I do not know that we need discuss that very much,

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made in this country. The ordinary transactions in India differ so much in size from the cash payments in this country that it would be a truer analogy to compare the position of the rupee to the sovereign before the war or the £1 note now.—Yes I think that is absolutely true. I had myself in complete agreement with that. It leads one to enquire whether there is any meaning to be attached to limiting the legal tender quality of the rupee if for all practical purposes the rupee is going to go on as unlimited legal tender after the declaration in the same way as it did before. I think very largely we are using words which when analysed do not have any proper significance.

11,066 In fact, the rupee must be regarded rather as a unit of currency than as a fraction of currency?—Absolutely.

11,067 The true analogy would be between the 4 anna and 2 anna piece—the subsidiary coins in India—and the silver coinage in this country?—Certainly. That appears to be admitted by Sir Basil Blackett, who at some stage in his evidence said, 'I do not think there would be necessarily any large reduction in the volume of transactions still carried out in rupees.'

11,068 To turn to the question you were discussing just now with Sir Purshotamdas Thakurdas as to the sterling standard or gold standard, I understand from what you said on Monday that you are in favour of linking the rupee to sterling and not to gold?—The rupee as I envisage the position would be issued by Government in exchange for a certain number of grains of gold. In other words, the tenderer of gold in India would be entitled to acquire rupees at a fixed rate. In actual practice for purposes of quoting exchange, the quotations would be in sterling but I contemplate that the rupee should be linked to gold and not to sterling in the sense that the Government or Bank charged with the duty would be under an obligation to issue rupees if gold was tendered to it. The question of tenders of gold to the Bank or the Government, as the case might be, would no doubt be influenced by the policy adopted in the matter of selling rupee exchange against gold exchange. In other words if you assume—as I am disposed to assume—the identity of gold and sterling for all practical purposes the distinction between the two ceases to be of great significance.

11,069 I do not think you have made your position entirely clear. You say that Government would be under an obligation to give rupees for gold but you do not make it clear what obligation Government would have to give gold or sterling for rupees, or notes for foreign exchange purposes?—I am contemplating in these other Memoranda that if the Commission consider the time is suitable the Government should undertake an obligation—either the Government or the Bank—whichever is charged with the duty—to give gold or gold exchange at the appropriate price for local currency without limit if so required.

11,070 Either gold or foreign exchange?—At the option of the Government, but in practice I contemplate that gold exchange would form the ordinary vehicle for adjusting a temporarily adverse balance against India—the object would be convenience and economy of gold.

11,071 You are really in favour of a gold standard and not a sterling standard?—Certainly.

11,072 I understand from what you have said to Sir Purshotamdas Thakurdas that if sterling broke away from gold again India would then have to choose whether she followed sterling or followed gold?—I think that would introduce a new factor into the case which would necessitate a consideration by those in charge with India's interest of what her currency policy should be. That would be a world factor of a momentous character which would I think necessarily impose on the responsible authorities the duty of considering in what direction India's interests lay. It would not necessarily follow things would

automatically go on as before, you would have to consider the question of altering your rates in a case of that kind.

11,073 It would be a very material consideration would it not whether you were legally tied to sterling at that time or whether you were legally tied to gold? If you decided to remain with gold you need not take any action at all you would only need to alter your law if you decided to follow sterling. That would be a material factor?—You would find yourself up against this position. In a situation of the kind we are contemplating at the moment there would have been a depreciation of sterling. You have got an offer out, under this scheme we are now discussing to give gold at a certain price or sterling exchange at a certain price without limit at the Government's or Central Bank's option. If the sterling exchange had depreciated you would find yourself pressed with a demand for gold in order to maintain the established ratio, and if you acceded to it in principle either by giving gold or appropriately increasing your statutory rate you might be faced in conditions of that kind with the possibility of suffering a serious drain of your gold or gold exchange, because speculators or others might form the view that the departure of sterling from parity was of a temporary or phenomenal nature and they would aim at making excessive outward remittance, and become holders of sterling, reckoning that when sterling returned to parity they could replace the rupee at a profit. I think if a situation of that sort arose you would have to consider your position.

11,074 You do not suggest that if sterling depreciated the giving of sterling instead of gold would discharge your obligations. When you said you would give gold or foreign currency, you meant foreign currency on a par with gold, did you not?—Yes, that is what I mean. In other words if you decide to remain on gold you would be forced to alter the price at which you would be prepared to sell sterling exchange.

11,075 Naturally, if sterling broke away, and we remained on gold, the sterling exchange would alter?—You would have to get your offer of sterling exchange on to the lines of gold parity of the rupee, you would have to alter the rate with reference to the discount on sterling in terms of gold.

11,076 My point is, you would not require to alter the law if you remained on gold?—No.

11,077 Whereas if you are linked to sterling, and decide to go on to gold you would have to legislate to do so?—Yes.

11,078 Under (D) of your Memorandum No 3 you say 'It is well understood that under the gold exchange standard the employment of the gold reserve in connection with the sale of reverse Councils for the support of exchange,' etc., 'would involve a corresponding currency contraction.' That result would only follow if you maintained the total of the reserve intact by locking up rupees in India?—That is so.

11,079 Is that what you mean there?—That is what I mean—that in so far as you utilize sterling assets in that gold standard reserve on this side to meet reverse drafts you would have to place in a vault in India the rupees corresponding to the amount of sterling withdrawn.

11,080 That is assumed in what you state here?—Yes. What I meant by that is that the authorities conversant with the policy, and charged with working the scheme understood that the sound employment of the gold standard reserve does involve bringing about a contraction in India corresponding to the reduction in the reserve on this side and the idea I had in mind there was an answer to the suggestion that the gold exchange standard as worked properly was defective in comparison with the gold standard with a gold circulation, whereas I should take the view which I think has been held by many writers, that the system is just as automatic in its regulation of the money



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supply as the strict gold standard, although there is no gold in circulation and no necessity to move gold backwards and forwards between the two countries.

11,081 I wanted you to clear up that point, because I rather gathered from something you said that you wished to relax the contraction for fear of causing excessive stringency in India—I have no desire that we should depart in our practice from what the dictates of strict theory require. All I had in mind was that it is conceivable that you might have to face at a particular time the question of whether strict compliance with theory might not inflict an injury on an interest wider even than exchange—for example take the case which occurred in 1920, and which is dealt with in the memorandum which I have put in to you. The authorities held at the time that further contraction was not consistent with the maintenance of India's trade interests to the widest sense. The choice, therefore, was between imposing a further drastic restriction of currency, which might have driven the money market rate of discount to a phenomenally high figure, and letting the exchange lapse for the time being. The authorities at that time felt that it would have been contrary to the interests of India to have supported exchange more than they did by imposing additional contraction. I only suggest it is conceivable in the circumstances of India for the reasons set out in the memorandum that you might be faced with that issue again. Normally it ought to be well understood and recognised that there should be *pari passu* contraction when reserves are sold. I think that that ought to be the guiding principle and that it should be laid down with due formality.

11,082 If you found that the following out of that principle and the strict application of it caused severe stringency in India, would you let the exchange go?—There are half-way houses in this matter, of course. As long as you are prepared to sell your gold exchange at the proper rate without limit of amount, your exchange would not go, though you would not have effected the necessary contraction immediately. You might be able to give the banks a somewhat longer time to draw in the currency which would be set aside at a somewhat later date. I had in mind for instance, the device which is available in this country, for example, for relieving money stringency in connection with the Bank of England's operations. In a certain sense this has a rough analogy to that, in other words I think we have had in the papers that I have produced some indication that with a longer period you might be able to get the desiderated contraction, but you might not always be able to get it absolutely *pari passu* owing to the fact that since the money organism is so imperfectly developed in India the immediate burden of contraction is focussed on a very narrow field at present. In this country an alteration of the rate of discount has repercussions from the Isle of Wight to the Hebrides at once, but in India where an important part is played by the relatively uncontrolled cash it takes a very considerable time or let us say a much longer time than in this country before the influence of a rise in the discount rate is felt with due effect. In other words the adjustment of internal prices to external levels is not so capable of prompt achievement in India as it is in a country where the whole credit structure is under the control of the banking organisation and the cash is merely the basis which supports the credit.

11,083 Do you mean that if the situation of 1920 recurred you would take a similar course of selling reverse Councils at the fixed rate, although the change had broken away? That is rather what I seem to suggest?—I think the question of the sale of gold at which reverse Councils were sold in 1920 is somewhat different from the question as to what should have been done with the resources obtained by the sale of gold or gold exchange from the reserves.

do not want to defend in all details the policy of 1920.

11,084 I was not going into that. I was asking what you would do in future if a similar crisis arose?—I think of a similar crisis arose I should set out with the firm resolve to effect contraction in India *pari passu* with drafts sold against the reserves on this side, and I should require the co-operation of the banking authorities to enable me to effect this, but if at some stage in the process things if banking authorities came to me and said, "If this kind of thing goes on we shall have to raise the rate to 10 or 11 per cent," or whatever it might be, I should then have to consider whether I should suspend the sale of reserves, which obviously, in those conditions would mean an immediate lapse of the exchange, or whether I should keep on my sales of reserves, contracting in India to the greatest possible extent but not necessarily to the absolutely full extent strictly desiderated by the sale of reserves, the understanding with the banks being that the rates of discount would, so far as conditions in India allowed, be lowered to such an extent or maintained at such a point as would enable me to take good as early as possible what I should frankly regard as a lapse from the ideal but a lapse imposed on me by the necessity of paying regard to trade interests and the money markets of India.

11,085 You would go on selling reserves rather than let the exchange go?—I should have to judge that question in the light of the actual situation at the time. If I saw that the position was such that there was no hope of adjusting Indian prices within a reasonable measure of time to a very sudden and large fall in external prices I should then probably come to the conclusion in the circumstances described that it would on balance be to the advantage of India and to let the exchange suspend the sale of reserves. On the other hand, as I have accepted I think I should be able to effect the necessary adjustment. I should prefer to take the view that the sale of reserves at the proper rate should be continued for a period the understanding being that we should endeavour to contract as hard as we could up to the desiderated amount. I do not think I could put it more definitely than that because as I say I think I would have to form a judgment in the light of the facts of the particular case. If in 1920 after the adoption of the 2s. rate it had been foreseen what a sensational fall in gold prices was beginning the right policy in a case of that sort might possibly have been to suspend the sale of reserves at once but people could, of course argue even in a case of that kind that the sale of reserves acted to some extent as a brake on the fall of the Indian exchange giving it a certain support, and that this helped people with commitments to get out of those commitments with less serious results than would have been the case if the exchange had collapsed suddenly.

11,086 You contemplate really two safety valves against excessive contraction one is possibly letting the exchange go and the other is possibly selling reserves for a short time to mitigate the stress?—Yes, without having the strictly desiderated contraction going absolutely hand in hand with that other thing as I understand advocating these things as ideals because as I say I regard the ideal *pari passu* contraction but a study of the Indian conditions leads one to the view that unless we can save some means of relief in the time brought to a deadlock not by any deficiency of the contract required.

I think I see what you mean. I just want on one point. Would you provide for those emergencies as analogous to suspending the sale of gold in England?—That is a question I have some difficulty in answering because there are some advantages in making contraction a legal obligation

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if you really felt it was going to be generally enforceable, and that the need for giving some relief would not present itself, possibly on the first occasion when you had to resort to the sale of reverses. As an alternative to legislation of course you could have a firm announcement of principle say by the Commission if it took that view and subsequently by the authorities in India in the form of a resolution or in some other way. They might make it clear that they recognised it as an obligation to go in for pure paper contraction, and there you would have to leave it. There are methods less rigid than a law for giving effect to this conception methods with which you are familiar. It is a difficult question to know whether you should make it a legal obligation in India because I do not know if I am wrong in saying of this country that although it is obvious that if the Bank of England loses £1,000,000 of gold there is automatic contraction to that extent the Bank of England has methods by which it can come to the assistance of the market and I think if you made it legal in India as the other methods of giving relief do not apparently exist there, you might be tying yourself up rather more than you are tied up even in this country. I feel some difficulty on the point as to whether it should be a legal obligation or a principle firmly enunciated in some other way. On this point there is one thing one ought to say and which I have said in this other memorandum, and that is that in the past we have recognised as quite an ordinary thing the meeting of reverse drafts from surplus Treasury balances on this side. In so far as that is done the payments made in India for the exchange will go into the Government deposits at the Imperial Bank tending thereby to increase the public deposits and the banks cash ratio, and thus to that extent making rather for ease in the market when what you want is to stiffen rates. I think that the policy of meeting reverse drafts from Treasury balances, which involves no obligation to contract, was defective.

11058 It is surely quite clear that meeting reverse drafts from Treasury balances does not involve any contraction at all—it is in a sense a positively expansionist influence in so far as it strengthens the cash position of the principal bank. I think, therefore that that policy was wrong. I am also of opinion that in the past we have, perhaps not had sufficient recourse to the discount policy in this connection. Now far the discount policy would be effective in the circumstances in India as I think, very arguable and it is discussed in these papers but certainly one ought to call in that weapon to the maximum possible extent. One should definitely recognise when reverses are being sold that it is up to the principal banking authorities to do all they can to work hand in glove with the exchange policy, which has not always, I suggest, been sufficiently recognised in the past.

11059 It has been suggested to us by many witnesses that we should make the system "fool proof" by making it a legal obligation to contract the currency. I do not want to piss you on that if you cannot give an opinion on that proposal—as I say, I incline, myself, if conditions remain as at present to favour a firm announcement of policy in some other than a legal way, for the reasons I have given. I think in this country there are methods of easing the situation which are not open to us in India, and I think we ought to give the authorities charged with the maintenance of exchange some measure of discretion as to the pace and intensity with which they impose contraction. The matter would require further consideration if control is made over to a Central Bank.

11061 Chairman. I have one or two questions on that very interesting issue. We are contemplating a state of affairs in which a contraction in the currency produced by the normal operation of a basic provision such as this might produce a scarcity of credit which might be dangerous?—Yes.

11092 Such conditions are allowed for in currency systems which are familiar to us under the provisions of the Statutes regulating the central bank by a mechanism frequently in the nature of an expansion of the fiduciary issue on special terms. That is a method of alleviating the contraction according to fixed rules laid down by the law, and under the control of the bank of issue—the central bank. On the other hand, there is the alternative suggestion that the alleviation should be left to the authority in control of the gold standard reserve according to some general principles which are defined but not statutory. I understand you hesitate to pronounce an opinion as between those two as to which is the more appropriate for Indian conditions—I was not so much considering the alternatives or regarding them as mutually exclusive. You might, I imagine have conditions in which the right to expand the currency on terms would sufficiently meet the case. The kind of bank of issue, of course, which I imagine we are contemplating now, is that which has a proportion, and, ordinarily, a fixed proportion, of the total issue against investments, the invested portion being capable of increase on payment of a tax in some form or other. Take a case where the metallic percentage has to be 40 per cent for the purpose of an example. The loss of gold in a case of that sort means that you have, in any case, if you are to maintain your proportion, to reduce your total issues more than by the actual amount of the gold lost. There would therefore be, in any case a certain strain to take it. In the case of a country like India there would be a certain strain through the enforcement of that condition, because there is a return of currency from up-country seems to take a long time. You do not get the quick response to the operation of the bank rates that you do in this country. In so far of course as the method that you are suggesting actually replaces credit to the extent of the method I was suggesting in answer to Sir Reginald Munt just now, in so far as the two things are equal, one would be just as effective a method as the other, because we are concerned with the total amount of credit available at a particular time and in so far as the amounts were equal, under either method the result would be the same.

11093 I was looking at it rather from the point of view of the best administrative machinery. It might be said that in the case of one alternative a vital matter as regards the working of a currency system was being left wholly at large and absolutely at the discretion of a certain party, so that the general public and the trading community could never have any certainty as to what action would be taken under any given circumstances. Is that a practicable or a desirable scheme for permanent incorporation in the currency system of a country?—I think it is not really in itself desirable. One must of course, envisage the possibility that there might conceivably be a period of weak exchange without the bank rates being necessarily at a very high figure in India. That has happened in the past, and even during the period of 1920 the bank rate was at certain times down to 5 per cent. The central financial authorities might find themselves in a position to increase the currency without any penalty in Indian conditions. I think that is a point which requires some consideration because we have had experience of cases where there has been a temporary weakening of exchange, yet money rates in India were comparatively easy and this particular policy of the fine would not really be effective.

11094 Because there was still a margin you could let out?—Yes. I think also there is the other possibility that the banks do not necessarily aim at keeping their banking ratio constant and there is also possibility therefore, which I suppose exists under any system, namely that the contraction of credit moderated by the central banking authority is

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capable to some extent of being countered by the other lending authorities reducing the cash proportion in which they conduct their business.

11,095 Yes. No doubt that is possible in a country with a highly-developed banking system, but is that likely to create a practical difficulty in Indian currency problems?—Not in so far as you have not got in India the network of banking organisations that you have for example in this country.

11,096 That would rather point to the desirability of improving the organisation of the Indian banking system in relation to a central bank?—Certainly.

11,097 I have one or two other subsidiary questions. When you were dealing with the proposal that there should be a gold currency, as you describe it as an exercise, you advanced, I think, as the principal practical argument in favour of it that the gold coins might be substituted for silver in the event of the price of silver rising above the milting point of the silver rupee?—That was certainly one aspect to which the proposal might conceivably have some use on special occasions.

11,098 I wanted to know whether, in view of the small payments that would be commonly required, you think that really would be of any practical assistance in an emergency, and relieve the Government from the necessity of dealing with the situation either by lessening the silver value of the rupee or by taking some other course?—I do not think it would be in itself a complete remedy, but I imagine it would give some kind of relief. Salaries could be paid in that way to some extent, and railway fares where usually a considerable number of rupees are involved. You might be able to get some relief there as has in fact been done on previous occasions when a considerable amount of gold was put out. Gold would also be available for securing the internal convertibility of the note.

11,099 You recognise, no doubt, that although it might be an alleviation it would not be a remedy?—Certainly. It would only be an alleviation.

11,100 (Sir Alexander Murray) I gather you said you might be in favour of a gold standard without gold coins being actually in circulation. If such a standard had been in existence in 1920 how would you have set about contracting currency?—We are postulating for the moment that we have a 25 ratio in operation, or something of that sort.

11,101 Yes?—You would have been under an obligation to give gold from your reserves, or gold exchange from your reserves at the appropriate price and you would have had to lock up or destroy your notes *pari passu* in India. At that time of course, you would have found yourself exposed to a tremendous demand for gold and gold exchange especially on the part of persons who felt that you would not be able to maintain that policy for an indefinite period and who would anticipate that after you had abandoned that policy the rupee exchange would weaken, and they would be able to replace rupees at a profit. You would have exposed yourself to the risk of very substantial drains on your reserves. You would have also come up against the difficulty of contracting currency proportionately which *pari passu* would have involved continuing the drain on your reserves because you would not have removed from the market currency which could be offered to you in demand for gold or gold exchange. I think in the circumstances of 1920 you would have had to abandon that sort of policy pretty quickly.

11,102 It would not matter whether you were on a gold standard or a gold exchange standard in those conditions?—If one accepts the position that the adjustment of the internal price level in India to the external price level could not be effected with sufficient promptness. I think one has to accept that view. Of course there would be the additional demands which might come on you from the holders of hoarded rupees which they would expect to be able to replace to a large extent later on.

11,103 (Sir Puraladas Thakurdas) In reply to Sir Reinold Munn you said owing to the small payments

to be made in India by the masses you could make it necessary to regard the rupee as a unit rather than as a fraction of currency?—Yes.

11,104 For the same reason do you also consider it necessary that the rupee should be regarded as the standard unit of India?—By the standard unit of course you mean the main medium in which transactions are carried out or as a representative of an imaginary gold coin of so many grains of gold which does not exist. I regard the rupee as being representative of a certain number of grains of gold.

11,105 And to that extent the rupee is the standard unit of India until you adopt a gold coin?—Until you adopt some other unit.

11,106 Can you tell me of any country which has a token coin as its standard unit?—The only cases which occur to me off hand are in Europe the five-franc piece and in America the silver dollar. I think I am right in saying that in the Straits Settlements the standard unit is the dollar, which is a silver coin and which forms the vehicle of business and the unit of the country and which is kept stable with gold exchange.

11,107 The silver franc of France and the dollar of America are no longer being minted in fact by virtue they have stopped minting these coins?—I am referring to conditions as they existed in the past. I imagine now there are none in France and the silver dollar does not circulate to a great extent. I understand in America. The nearest analogy is the silver dollar in the Straits Settlements which is the main vehicle of business there and the currency in which values are expressed. Gold does not circulate at all.

11,108 Are the Straits Settlements on silver or on gold?—They are on gold because the value of the silver dollar in local stock with gold equal value.

11,109 Is that a token coin or a full value one?—A token coin.

11,110 None of the other countries of Europe have a token coin as a standard unit. Why do you recommend this particular experiment to be continued in the case of India?—Because I have to consider the special circumstances in India which are referred to here. In India this unit has been the vehicle of business and has a long history and tradition behind it.

11,111 Because Indian people deal in small amounts do you think it is necessary to maintain the rupee as the standard unit?—We are not yet in India able to advance to the stage of giving up a full legal tender metallic unit. In some of the European countries you have referred to the circulation of an unlimited tender metallic unit has been abandoned, they use notes.

11,112 (Chairman) It would be interesting to have the facts about the five-franc piece. They were originally coined by the members of the Latin Union?—Yes.

11,113 In France the number was limited in 1873?—Yes.

11,114 Belgium imposed a similar limitation in 1913?—About that period.

11,115 The other members followed suit limiting the amount of the issue in 1914?—About the same time.

11,116 In 1875 the coinage of five-franc pieces ceased?—Yes.

11,117 I think I am right in saying it has been resumed only in Switzerland but subject to a limitation of so much per head of the population. That includes your memorandum No. 3. We will now turn to memorandum No. 4. I understand this memorandum proceeds on the assumption that there is a continuation of the gold exchange standard?—That is so.

11,118 That is necessary to a correct apprehension of it?—Yes.

11,119 In as far as opinions are expressed in this memorandum they are your personal opinions and not official opinions?—Certainly and the various opinions expressed are subject to the credit or on

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[Continued]

individual bank having the grip and money up and down the country that we are familiar with in countries where the banking organisation is fully developed. It wants something besides a central bank to establish a perfect central banking conditions.

11131 The differences between the conditions of the Imperial Bank and those of a typical central bank are rather emphasised by the number of the former and that of its business. In paragraph 2 you make the interesting suggestion that the creation of a central bank would presumably involve a splitting of the functions now discharged by the Imperial Bank?—Yes.

11132 Could you expand that and tell us what species of transaction you had in mind in referring to a splitting of the functions?—I should endeavour to get rid in the first hand relation between the bank and the trader, I should aim at a position in which the bank was primarily a bankers' bank, and the distribution of credit facilities up and down the country in so far as it affected the individual was in the hands of some bank or banks other than the central bank. I do not think it is a suitable thing, or a helpful thing for the satisfactory functioning of a central bank that the holder of the ultimate reserves of the country should itself be the vehicle through which credit is directly made available for firms and individual.

11133 Do you think it is possible to reconcile the useful functions of a true central bank, which involves the necessity that it should be looked on as a bankers' bank with other functions which may bring it into competition with other banks?—I think it is undesirable to recognise such a situation as a suitable line of advance. I think it is very desirable if things are going to be developed in India on the right lines, that the proper scope of a central bank should be clearly defined and that it should not include functions which are proper to ordinary commercial banks. I think it would be difficult to reconcile the discharge of the two duties by one body with sound conceptions of banking policy.

11134 As I understand it that is chiefly because if your central bank is conducting general commercial business in competition with other banks it can never be regarded by those other banks as their banker freely there may be suspicion and jealousy which would militate against the efficient working of the system?—Certainly. That is a very important aspect of the matter.

11135 From another point of view, in your opinion is some such organisation as the Imperial Bank necessary in order properly and rapidly to develop banking facilities in India?—Yes. I think it is most important to preserve in the hands of a bank such as the Imperial Bank the work of pioneering the development of banking up and down the country as it has done in the past. I would also attach some importance though I do not know how far it would be essential to having that kind of business in the hands of the people who seem to be very familiar with it and who have done it very satisfactorily during the last few years. The Imperial Bank has been the spearhead of banking development up and down India and I do not suppose any other authority in India could approach them from the point of view of inspiring confidence in the potential depositor whose funds we want to attract. The fact that they have been the exclusive bankers of Government in recent years has given them an exceptional cachet in that sort of business.

11136 I imagine the suggestion you make in this paragraph might be carried out in one of two ways. It would involve the consideration of which was to be the parent as it were and which the child?—Yes.

11137 Have you considered whether it would be better for the Imperial Bank to be continued as the entity to conduct its present commercial business and that a new reserve bank should be formed or whether on the other hand the Imperial Bank should become the reserve bank disposing of its ordinary commercial business to some new institu-

tion?—I have considered those two alternatives, and I find some difficulty in choosing between them, because it is mainly a question as to which of these two banks should carry the name. You will have two banks, one doing commercial business and the other central banking business and one will be the Imperial Bank and the other will be something different. It is a question of whether the reserve bank should have the name of the Imperial Bank or whether the commercial bank should have it. With regard to this there seem to be some advantages on each side and it would be necessary to choose between them from the point of view of the general public who are familiar with the name of the Imperial Bank and from the point of view of the work the Imperial Bank has done there would be some of course a disadvantage in letting the bank which is going to do the commercial business and the pioneer work have the advantage of the name and of the goodwill attaching to that name.

11138 On the other hand might it be said that the name of the Imperial Bank already commands great authority and that as we have already recognised it as of great importance that the confidence of the public in the note should be encouraged and therefore if the note is to be a bank note there may be an advantage in having the name of the Imperial Bank on the note?—That is an important consideration which tells in the other direction. Whether it is a decisive point in favour of maintaining the title of Imperial for the central bank I am not sure because if the note is issued by the bank which will have the Government deposits in future and will be known to have them that fact ought to give confidence to the user and holder of notes. If people can say "This note was issued by the people who have the Government of India's balance" it ought to give them confidence. I take it that the way a note of this sort would go about would be that it would be first of all circulated in the Presidency towns where it would be as the people would understand it be received with confidence and if that accepted it with confidence it would probably spread gradually throughout the country without any difficulty. I rather feel the note would be all right if it was introduced with care and with proper explanation and people generally knowing that it was issued by the bank with which the Government deposited its large balances would have confidence in it this fact might give security to the user of the note.

11139 In dealing with the remainder of the memorandum, I understand you would like us to remember that in future we should have to deal with it on two hypotheses (a) that the Imperial Bank continues with something similar to its present situation and (b) that it may be split up into what we will call a reserve bank and a commercial bank. It will be necessary to ascertain the application of your views to each hypothesis?—Yes. I think that is so.

11140 In sub-paragraph (3) paragraph 2 you say acting on the hypothesis you have pointed out that your memorandum is based on that "owing to the dual character which the Imperial Bank would have if without any substantial change being made in its functions it were entrusted with the control of the note issue it is necessary to ensure that the Government should have an effective voice in regard to the other hypothesis that there is a reserve bank formed by the Imperial Bank." Adopting the latter hypothesis the commercial functions of a reserve bank formed by the Imperial Bank would be as to the relation between the Government and the reserve bank. I think that in any case the relationship between the exchange policy is an act of the Legislature and the Government are responsible to the Indian Legislature with regard to the execution of the acts of that body. I think therefore that whatever is done it would be essential for the Government to keep in close touch with the Bank on matters of high policy.

11141 We are acquainted with systems under which the Government keeps in close touch with a central bank without any organised connexion. Is

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such a method suitable for India in your opinion?—I am inclined to the view that in the case of India you would want to maintain a closer relationship with the central bank and its governing body than you do under the law in this country. I gather that in this country the independence of the authorities responsible for the Bank of England is greater than the independence of the authorities responsible for the Bank of France and I incline to the view that in the case of India it would be desirable to aim rather at following the precedent of the Bank of France in that matter than that of the Bank of England.

11,142 In the case of the Bank of England the relations are based primarily no doubt on traditional co-operation, but ultimately perhaps on the circumstance that the Bank of England is the Government's bank, and finds it necessary to consider the views of its most important customer?—Yes.

11,143 What is the difference in Indian conditions which would lead you to the conclusion that some more organised connexion would be desirable?—I think we have to realize that there is a long tradition behind the Bank of England, whereas in India we are making a break from the past. In such conditions I think we have to realize that a break is being made and that the arrangements which would be suitable in such a case are not necessarily those which are suitable in a case where there is a long unbroken tradition prevailing. I think the Bank will be strengthened by the knowledge that the Government is with the Bank. It seems to me to involve a less abrupt change, and not to introduce any disadvantage.

11,144 You deal in your memorandum in some detail with the relations which should, in your opinion exist between the Government and the Imperial Bank of India on the hypothesis that there is no important change in the functions of the latter. Have you given any consideration to what organised relation you would recommend between the Government and a true reserve bank?—I contemplate that the managing governors should be either appointed by the Government or that their appointment should have the approval of the Government.

11,145 This is as regards a hypothetical true reserve bank?—Yes. I think the managing governors of the bank should either be appointed by the Government or what is very much the same thing, with the approval of the Government. I think there should be a right on the part of the Government to make certain nominations to the direction.

11,146 The majority or the minority?—I am putting hypotheses which are not contained in your memorandum. do not let me ask you now if you would like time to consider the point?—I should say a substantial number but not the majority. At the same time I think subject to further consideration that Government should have some means of making its will effective in the event of the bank pursuing a course which was regarded as inconsistent with the financial interests of India and its own responsibilities, because it does appear to me that certainly in the case of India it is impossible for the Government to disinterest itself in the question of exchange. I believe there would be greater confidence in the bank on the part of trade generally if it was realised that it was working in close harmony with Government, and that the general policy which it was pursuing accorded with what Government considered to be the interests of India. There are various methods in which such an influence can be given to the Government, it could either take the form of power to issue directions to the managing governors or of the right to appoint a financial officer of Government to the Board with the right either of suspensory veto or of conveying positive injunctions from the Government. I believe in the initial stages of a change of this kind it would be found to be desirable to strengthen the influence of the Government with the bank rather than diminish it. It is quite conceivable that when the bank has been running a considerable time the Charter may be open to review in some of these respects. By that time one should have had the advantage not only of experience but of being able to test public opinion.

11,147 That view applies to whatever form the Central Bank might have?—I think generally speaking it does though in the case of a real central bank strictly limited in its functions I should broadly speaking, favour a much freer hand than in the case of a hybrid institution.

(The witness withdrew)

## THIRTY-FIRST DAY.

Friday, March 5th, 1926.

## PRESENT

THE HON. MR. J. D. WARD HILTON YOUNG P.C., B.S.O. D.S.O., M.P. (Chairman)

SIR RAJENDRANATH MOOKERJEE K.C.I.E.,  
K.C.V.O.  
SIR NORCOT HASTINGS YERLES WARREN, K.C.I.E.  
SIR FREDERICK MANT K.C.I.E., C.B.  
SIR MINCKLEY BYRAMJI DADARAOJI, K.C.I.E.  
SIR HENRY STRAKOSKE, K.B.E.  
SIR ALEXANDER ROBERTSON MURRAY C.B.F.

SIR PURSHOTTAM DAS THAKURDAS, C.I.E. M.B.F.  
M.A.  
PROFESSOR JAHANGIR DOOVERLICK CHITRAKE  
MR. WILLIAM EDWARD PRYTON  
MR. O. H. BAXTER. } (Secretaries)  
MR. A. AVANIGAR.

Mr CYCIL H KISCH C.B., recalled and further examined

11,148 (Mr Kisch.) Supplementing my remarks at the last meeting on the subject of making contraction statutory in the event of reverse drafts being met

from the gold standard reserve I would wish to refer to the possibility of the reserve being handed over to a central bank for administration. In such a case

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[Continued]

because they are not suitable matters for general controversy in India any more than they are in this country.

11,180 It would we may agree perhaps sacrifice in a large measure those advantages if by any provisions practical responsibility and a proper freedom of action were not reserved to the Central Bank?—To that extent it would.

11,181 In the next sub-paragraph you say "It might help the interests of Government if contact were established between the Secretary of State in Council and the Advisory Committee." If by contact is meant anything in the nature of a practical power of intervention might it not be said that that would have the undesirable result of giving the Bank, in the exercise of its responsibility, two masters who are not in very immediate contact in space or time instead of one?—One of the questions in which India and the rest of the world is immensely interested in the future is the gold question and the places where views on the gold question will be most widely obtained and the places which will play the most important part in the gold question in the future are presumably the great gold centres. India is entitled to get her view expressed if any question affecting her interests arises at any time in those gold centres. It is obvious that some effective means of expressing those views in London should be available.

11,182 What do you mean by "contact" in this connection?—I should mean that a representative or representatives of the Secretary of State should attend the Advisory Committee of the Bank which has now been established and which would in the future, under these conditions, have increased importance in order that the Government of India which cannot in the circumstances of India divorce itself from these important interests, should be effectively represented there. There are some obvious instances where the matter might derive importance. For instance, the question of the export of gold to India for trade purposes as distinct from the social purposes of India might arise. It is clear that the amount of gold movement to India is influenced by the rate of exchange at which the Central Bank, or the Government as the case might be, is doing business. That might raise important considerations on which it is desirable that India should be in a position to make her view felt in an effective way. It is clear that the Government of India themselves are not on the spot. The supreme executive of the Government of India is the Secretary of State responsible to Parliament. If the Government of India have views to represent on any of these questions, the natural vehicle under the existing constitution would be the Secretary of State.

11,183 Are you suggesting that the representative of the Secretary of State should have any formal power or that he should attend in an advisory capacity?—I think he should attend in an advisory and watching capacity. I do not contemplate that he should have any formal powers. I think his presence there vested as he would be with the authority of the Secretary of State, would be an important factor.

11,184 I will now go on to your next paragraph, paragraph 4. I am dealing here with the arrangements as regards remittance business. You deal here with some preliminary questions. The matter is dealt with more fully in a subsequent Memorandum. You say, "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind." Would you agree that, if the Bank is acting in the transaction of remittance business for Government, some practical arrangement is necessary in order to enable the Bank to make provision for the Government's requirements?—There would obviously have to be close co-operation between the Secretary of State—the most important remitter—and the

authorities responsible for the actual carrying out of the business but what I have ventured to criticise rather strongly is the suggestion that Government funds should be deposited at a bank and that the depositor of those funds should not be free in principle to utilise those funds which he has deposited at a bank as he deems expedient from time to time in the light of ever-changing circumstances. I think it is contrary to the general conception of the relation between banker and customer that the customer's liberty in the utilisation of his funds should be circumscribed in that way. There are some practical reasons which lead one to that view. It is not possible for the Secretary of State to lay down fixed programmes of the kind suggested nor would it be consistent with the interests of the Indian taxpayer that he should attempt to do so. The interests of the Indian taxpayer require that the remittances should be effected according to the market conditions indicated. The interests of the Secretary of State require that if any unexpected demand arises he should be able to take such steps as may be required to deal with it. In fact, I regard it as contrary to the general conception that prevails as between banker and customer that the customer should have his resources in a certain sense immobilised—because that is what it means.

11,185 I imagine although ignorant, that under present conditions the Secretary of State does not conduct his remittance business entirely from hand to mouth, but foresees his requirements for a certain period and lays out for himself a programme in advance. Is there any difficulty instead of carrying out that programme himself in his communicating what his intended programme is to the Bank which is conducting the business for him as agent?—The Secretary of State at present has to see that by some means or other funds are always at his disposal for meeting his commitments, but he does not say at the opening of the financial year, make any attempt to space out his remittances by a settled programme over prolonged periods. He has other means of raising money in London beyond remittances from India if circumstances should prove adverse. I apprehend that there is nothing inconsistent with the idea of employing a bank to carry out the remittances, and the idea of the authority whose funds are in rupees in India stating with reference to the ruling conditions of the market what amount of those rupee funds he considers should be converted into sterling funds week by week as the situation develops. That is the practice which has prevailed for an immemorial period and I do not see that there is any valid reason for disturbing it, nor do I think there would be any inconvenience from the banker's point of view in working along those lines. There would in substance be no change from what has happened in the past and there would be the avoidance of what I regard as a serious objection and one which I feel ought to be very carefully considered namely of a customer being asked, practically speaking to immobilise his funds to a substantial extent.

11,186 Will you please contemplate for a moment a state of affairs under which the Bank conducts the remittance business as agent for the Government. Do you consider it should still be the responsibility of the Secretary of State to prescribe when the remittance can be conducted to the greatest advantage of the Indian taxpayer or do you think the responsibility of deciding the moment at which to buy exchange should become the responsibility of the Bank?—I consider that the Government who is responsible to the Indian taxpayer for the economical use of money raised from the taxpayer should have the deciding voice as to when remittances take place and the amount for which they take place from time to time. Of course he would act in consultation with the Bank but I think so far as the decision is concerned in such a case it should obviously rest with the Government because they are the Government funds

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[Continued]

the possible alternative, which would not be covered by the statutory provision that we are referring to, of permitting a sale of rupees to continue without full corresponding contraction. That would involve equally a relief from an obligation exactly the obligation which you have mentioned of maintaining the aggregate of the reserve intact. You could give relief in either of those ways, as far as I see.

11263 Could not the Bank borrow money in London and meet the reverses from those borrowed funds while still fulfilling the legal obligation of keeping the reserve intact?—That is a possibility which could be considered but I venture to suggest that that is a very serious matter for the Bank to contemplate. It would be borrowing money in London which it would be utilising for the purpose of drawing in local currency in India. It would have the liability to pay back that money in London and if at some later stage in this hypothetical crisis we are considering the exchange had to be allowed to go the Bank might incur very heavy losses in the discharge of the loan which it had raised in London for this purpose. I doubt very much the wisdom of envisaging that possibility.

11266 I only mean that it would be open to the Bank to do so within the four corners of the law?—It would be open to the Bank to do so within the four corners of the law.

11267 The obligation would be to keep the reserve intact and not necessarily to contract the currency?—I think that is a very undesirable method of procedure which ought to be guarded against. Might I refer back again to what I think is the difficult question that we were discussing on Wednesday, namely the actual form of the obligation, to maintain the exchange. I have been thinking a good deal about it since then. We had under the pre-war system an obligation to issue rupees against the tender of sovereigns. So long as that situation endured obviously it fixed the upper limit to which the rupee exchange could rise. You asked me on Wednesday about the arrangements for the support of exchange in the reverse direction. Well we did not discuss on Wednesday the question of making the reverse obligation statutory. It is worth recalling to the Commission the fact that under the pre-war system the obligation to give gold exchange for local currency was not a statutory obligation. It is an important question which one has to face now as to what form the obligation in that matter should take. I said the other day that I considered that there should be an obligation to give the tenderer of rupees at the option of the Government gold at par or gold exchange at the appropriate price. But the question of making that obligation statutory was not at that time raised. When you asked me as to what would happen if sterling became divorced from gold I at once was brought up against certain difficulties in the way of making it statutory which have to be met because I take it if you had expressed in a Statute a certain specific figure in sterling now equivalent gold that statutory figure might not in the case of sterling going to a discount a legitimately secure your theoretical parity because as I suggested the option of giving gold at par or gold exchange at the fixed price should rest with the Government. I certainly could not as it is present advised support a proposition which imposed upon the Government the obligation to give gold at parity in those purely hypothetical circumstances and the question of appropriately varying that foreign exchange would have to be dealt with. As I said the option between the two was to be an option with the Government. The question with which you would then be faced would therefore be the alteration of the statutory rate fixed in order to bring it up to the appropriate gold equivalent in the case of sterling being at a discount. I am inclined to suggest as a basis for my examination on this point that there would be a not statutory issued under statute that the Bank would give at its option—assuming now a Central Bank established—

gold at par or gold exchange at the appropriate price until further notice. And that offer would remain open, it may be hoped for ever if sterling and gold remain synonymous for ever. But I should rightly be asked what would happen if sterling in that state of things was divorced from gold. Sitting here I do not feel that I can give a categorical answer to what you ought to do in those conditions. I think that was an aspect of the case before me when we were dealing with the question of South Africa and the position she had to take as to whether to follow sterling or go back to specie payments on her own account. I think if that condition did arise the authorities responsible for the currency policy of India would have to consider their position and net as they thought right in the light of the circumstances.

11268 (Chairman) It comes to this, does it not? If sterling becomes divorced from gold, you are not prepared to say the rupee should remain pegged in gold?—I should have to consider the circumstances I think.

11269 You are not prepared at the present moment to contemplate, without hesitation, any system which would have the effect of pegging the rupee to gold whatever happened to sterling?—I do not think I could looking at the interests of India, undertake an absolute and positive obligation of that kind. I do not think it would be right to do so. I think it is quite conceivable that, when the occasion arose you might decide to keep to gold. On the other hand, it is also conceivable that the arguments, which are very strong in such conditions, of following sterling might be held to be decisive. It would depend of course, very much on what had actually happened to sterling and what the prospects were, and what the situation was.

11270 (Sir Reginald Mant) I should like just to clear up that position. I take it your position is practically that you are in favour of a sterling exchange standard and not a gold exchange standard?—No I would not say that because to-day I regard sterling as synonymous with gold, and at the moment I cannot contemplate what it would be in India's interests to do, in hypothetical circumstances in the event of a divorce of sterling from gold. I do not say it would be right for India to follow sterling in such a case. The suggested divorce of sterling from gold would be a momentous event of far reaching consequences and it would probably be a factor in another large series of events and India might have to consider her own position. It is conceivable—taking a pure hypothesis—that that position might arise if for any reason for instance gold depreciated very much in purchasing power. Supposing sterling became more valuable than gold, supposing for example the Bank to this country was relieved from the obligation to buy gold at a fixed price, and that this country had for instance for some reason or other adopted the policy which was tried by Sweden at some stage during the war under which coined sterling would be a better thing than gold and I should then want also to consider my position as regards India and I feel that the India Government and the India Legislature would want to consider their position in a situation of that kind. It is a conceivable situation in the world as it is to-day. I do not say it is a likely thing any more than the divorce of sterling from gold is likely but you can have it both ways. You can conceivably imagine sterling becoming less valuable than gold, you can also conceivably imagine sterling becoming more valuable than gold. Either of those two things would seem to me to raise a big question which you cannot answer categorically in the light of a system which has to be drawn up on what I think is the right and correct method and basis of drawing it up, namely the basis that sterling and gold are synonymous. The possibility of divorce has been mentioned. I am only trying to bring out the possi-

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[Continued]

bility that there might be divorce in one of two ways

11,271 We have heard so far this morning that you would impose a legal obligation on the Central Bank to sell. I am not quite clear what it is you would make them sell. I think it would clarify the position if you would be good enough to tell us that—Gold at par in India or gold exchange at the appropriate price that is to say less transport, etc. charges until further notice.

11,272 At a price equivalent to gold?—That is so until further notice. That would be the standing offer available, much the same as the Bank of England's standing offer to buy and sell gold.

11,273 But who would give the notice?—The notice would be issued under the conditions we are now contemplating by the Central Bank but it would, of course, be given with the authority of the Government and Legislature because this is a thing of transcendent importance, and, so far as we associate the Government and the Legislature with the Bank, it is obvious it would have to be associated with a declaration of that kind.

11,274 You do not put in an Act that something shall be done until further notice, you prescribe some authority which has to determine when the condition shall be changed?—I do understand that under the pre-war system the Act did not provide for this situation at all.

11,275 There was no obligation?—The Act imposed no obligation. A notification was issued under which the Government undertook certain obligations, and the last Committee that dealt with this point left this matter to be dealt with by a notification. What I want to address ourselves at the moment to, is as to whether we do not think that the obligation should now be undertaken by Statute, or whether it should also be undertaken by notification. I feel that, whichever way you do it in practice, if you had the divorce of sterling from gold you would in the circumstances that then existed, be forced to consider your position. It is not a likely contingency, but it has to be stated. I do not think you could put yourself in a position of allowing yourself to give an unlimited obligation which could not be dealt with at the appropriate time of giving gold at par with out limit, or which precluded the alternative of appropriately adjusting the foreign exchange alternative to the variation of sterling from gold.

11,276 You told us just now that if we made over the management of the currency to a Bank you considered it necessary to put them under a legal obligation to sell foreign exchange, and since then you seem to be going back to the old idea of a notification?—I said that the gold standard reserve would have to be under statutory regulation, that is to say they would have a reserve of a certain amount and if certain things happened to it it would have to be held in another form. But in dealing with the statutory control of the gold standard reserve I was not dealing with the obligation of selling exchange any more than the Paper Currency Act as it stands to-day deals with such an obligation. We know it is used for the purpose but there is

nothing in the Paper Currency Act requiring the Bank to utilise the sterling assets from the paper currency reserve for the grant of foreign exchange.

11,277 Am I to understand that you do not propose to make it legally incumbent on the Bank to sell foreign exchange? Is that your position?—I am disposed to think that the obligation imposed upon the Bank should be an obligation published by notification and imposed by Act.

11,278 You mean that the Bank should be obliged to issue a notification? What would the obligation be exactly?—It would be incumbent that a notification should be issued by the Bank in a more binding and different form from the notifications that have been issued by the Government of India in the past. The Government of India have issued notifications that they would to the maximum extent of their resources sell foreign exchange. The general obligation to maintain the exchange must be statutory but I doubt whether the time has yet come, until we have had more experience of things for putting in the statute the gold exchange figure equivalent to gold at par, or whether this figure should not be given in a formal notification issued under the Act. May I just put one point on the difficulty of making that sort of thing statutory. You have gold at par or gold exchange at the appropriate price. That appropriate price depends on things like shipping charges, insurance charges, and so on, which themselves may fluctuate. Therefore you must have some means of adjusting that figure to the appropriate gold parity.

11,279 Just this one question to make it clear. Would the Bank be at liberty to withdraw the notification at any time? If so it seems to me that you are imposing no real obligation on the Bank?—I do not follow the suggestion that the Bank would be at liberty to withdraw the notification at any time. I think in a thing of that kind of transcendent importance it has to have the whole force of the Government and the Legislature behind it. But I am only suggesting that there are certain difficulties in the way of embodying in the Statute an actual figure for foreign exchange or sterling representing a definite quantity of gold less transport and insurance charges.

11,280 (Chairman.) I think I am right in saying that no difficulty was found in inserting gold points of a sort in our own British Statute?—Here we have to give graves of gold for local currency. We do not have to deal with what is given in the way of dollar exchange for there is no obligation on the part of the Bank of England to give dollar exchange at a fixed price. In this country the obligation is grains of gold against currency and in the old days it used to be sovereigns against grains of gold.

11,281 With regard to general precautions, is it really necessary for you to do more than to say that if you please you can peg the rupee to gold now because gold is equivalent to sterling but recognise that if on some future convulsion sterling is shaken off gold then India or in fact any other country may have to reconstruct its currency system?—That is what it comes to.

(The witness withdrew.)



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SIR JAMES BRISTOL KCSI, C1F

[Continued]

explained that one factor in my view was the desire to get away from Government interference—the interference of her own Government I think another factor is a desire to be in a position of international equality—to have the best system, namely, a system which has approved itself to the great financial nations of the West, and to have the maximum freedom in working it.

1129 For this purpose I understand you emphasize the importance of powerful representation of the Indian currency authority in London.—I think so.

11297 That is no doubt on account of India's special position as regards geographical distance which is not shared by other members of the gold standard community. In the next sentence you say, "I think it important therefore, that machinery should be established in London for regular joint consultation between the Governor of the Bank of England, the London representative of the Imperial Bank of India and a representative or representatives of the Secretary of State in Council." Can you detail at all the nature of the machinery which you have in mind.—I have not attempted to present the Commission with cut-and-dried propositions partly because it seems almost an impertinence on my part to offer, as it were, to write the Commission a Report for them.

11298 I am sure we should be most grateful.—What is working in my mind is that instead of the Finance Committee of the India Office sitting in one of these beautiful rooms here, the place where these matters ought to be settled is somewhere in the City. I have a very high opinion of the Finance Committee of the India Office. It has always included some very able men, and I am quite sure that Indian monetary administration is greatly benefited by its contact so that is building with the City of London and its advice, but I think things are moving rather away from that kind of management, and if you can work towards linking management on sound lines I think it is beneficial that the administrative side—the Secretary of State—should somehow be represented there, and kept cognisant of what is going on. I take it that every great Bank in this country likes to keep in touch with the administrative personnel of the country.

11299 Do you contemplate that the function should be advisory or executive, and is the London representative of the Indian currency authority.—It is very difficult to answer that question unless one has in mind clearly the banking machinery to which business is being entrusted. If you have a Central Bank, as I should like to have if it is possible, then I can well imagine that you might not need definite cut-and-dried prescriptions as to what rights the Secretary of State should have in the matter but if you feel that the establishment of the Central Bank is not at present a possible thing (and by a Central Bank I am now speaking of a true Central Bank) but you nevertheless decide to invest the Imperial Bank of India as far as may be, with the functions which would more properly appertain to a true Central Bank I should conceive in that case that the Governmental authority should be more strongly represented and that its right of interference should be more definite.

11300 From paragraph G of your memorandum, I note that you would not attach much value to gold in circulation as a support to reserves. You say you would not expect much return of the relatively marginal supply of circulating gold. In the following paragraph you support that opinion by reference to the experience of past years. That has been the experience, as I understand of currency affairs in India—that gold has not returned.—May I say one thing before I coming to that? I did not want to be a lone here but my impression is that most authorities—and I believe Lord Gochoen may be quoted in this respect—would agree in not expecting

that at a time of difficulty great and immediate assistance could be obtained from gold in circulation, and in that connection I would remind the Royal Commission that one of the proposals—and a very proper proposal, I think—is that the undertaking to support exchange should be an unlimited and taking unlimited in amount and unlimited as regards the time in which it comes into operation that is when there is a demand for sterling sterling must be found as soon as the demand offers itself, and to any extent which the demand represents. Against such an immediate obligation I do think there is very little likelihood of substantial assistance from gold in circulation. As regards past experience, I wish to be quite frank with the Royal Commission. I express there my view of what is a fair deduction from past experience. The only available facts I have been able to glean which might seem to have a direct bearing on that are the figures of the return of gold to Treasuries. Currency of course is always flowing in and out of the Treasuries. It is flowing in for payment of Government revenue and for exchanges into other forms of currency, and it is flowing out for Government payments and to meet demands for exchanges into other forms of currency. I notice that just before the War Indian Treasuries received something like 10 million sovereigns in one year. The railways and the Post Office received about 2 million pieces from the public. The figures are something like that. I mention them, because others to whom those figures are given may think that they illustrate a fairly large volume of inflow and outflow of gold and show rather a satisfactory result of the efforts to put gold into circulation. But the conclusion I draw with those figures in mind and also on the basis of my general experience, is that though there was some beginning of a real gold circulation there was not any real indication of a helpful influx of gold from the point of view of meeting the demand for sterling, remittance in periods of exchange weakness.

11301 In paragraph 7 you say "The policy of maintaining exchange by external credits is now, I should say a fully accepted feature of post-war practice." Do you think the policy of external credits is a permanent policy for the permanent maintenance of exchange or is it not rather one intended temporarily to tide over the period of post-war monetary difficulties.—It certainly is in existence at this moment as a temporary method. That is to say conditions at this moment are unsettled and it is in existence, and so far one cannot say what will happen with more settled conditions. I myself have read the communications of the Genoa Conference to take one source of information as embodying the idea that certain principal money centres should be recognized as specially charged with the duty of holding gold in large quantities in order to uphold the ultimate gold basis for all the participants and that the less important centres should rely mainly on credit on these principal centres and I should have thought it was very natural having begun by a system of credits, that they might continue on that basis. I notice here clauses 2 and 3 of resolution 11 of the Genoa Conference. I will read them, if I may, and then pass the paper on to you, sir.

"(2) When progress permits certain of the participating countries will establish a free market in gold and thus become gold centres."

(3) A participating country, in addition to any gold reserves held at home may maintain in any other participating country reserves of approved assets in the form of bank balances, bills, short term securities, or other suitable liquid resources.

I do not want to lay undue emphasis on those two passages taken from their context, but they illustrate the general impression I got.

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[Continued]

Practically speaking, the assumption that the Note will not be replaced by gold seems to me very like this assumption—that because a couple of pieces of paper like these, two 10s. notes, are more convenient to use than some clumsy lumps of coin weighing altogether several ounces, it may be assumed that the Indian will find it equally preferable to use a piece or two of paper instead of a moderately small coin of a kind which we all admire very much even in this country, and which he admires a great deal. But apart from that I put it on a broader ground. There is a good deal of common sense in the Indian's view that gold is first rate stuff. It has its value inherent in it. He probably does not understand, as a matter which he could express in economic terms, all about the depreciation of gold but even if you allow for the depreciation, it is one of the finest things known in a world of fluctuating values. The Marwaris, who flocked to our Currency Offices from 1st August to 4th, 1914, by the 3rd and 4th had begun to take our gold away at the rate of somewhat near £1,000,000 a day. Events very much justified them. Looking at their material interests only, they were doing a very successful and far-sighted business in getting hold of all the gold they could. If you present India, not only with facilities for using gold in circulation, but actually compel her to use gold in circulation because you take away the silver rupee, I think there is an appreciable chance of the Indian deciding to use gold in preference to notes to a very large extent—an extent which might gravely modify your estimate of the amount of gold you require in order to introduce a gold currency.

11,312 For these and other reasons stated in your memorandum and in an important footnote to this paragraph, you express the opinion that if a gold currency is to be introduced it should be done by the more gradual method of discontinuing the issue of rupees, and standing by until time has served to reduce the surplus of rupees outstanding, and thus, as I understand you, to reduce the problem to more manageable proportions?—And to give it a less irremediable character.

11,313 What is the exact meaning of your word "irremediable" in this connection?—You do burn your boats when you start selling rupees and when you start very strong methods of withdrawing them from circulation, revolutionising the world prices of silver and so forth, and it would be very difficult, after five years of that, if you decided that the experiment was a failure, to go back and drop your idea of forcing a gold currency. If you merely let the rupee circulation gradually waste, as it were, and replace it by gold as long as people will take gold, one of two things will happen, I think. Either they will go on taking the gold, you will find they are not taking too much and that everything is working well in which case you will get your system into effective operation. Or you will find that, when a certain point of satisfaction of demand is reached in regard to gold, a time will come when they really will want rupees for transactions, and you will have to coin them. Proceeding on those lines you would be able to coin them. You would have done nothing drastic, you would not have been selling your rupees and breaking silver prices all over the world. You would simply have to admit that, after all the rupees was a coin which up to a certain extent, India did want and you would proceed to provide it.

11,314 By this method whilst reducing the silver rupee problem to manageable dimensions you would wait and see, I understand whether your gold reserves were accumulated by a natural process without international disturbance to such a point as would enable you with safety to introduce a gold circulation. If they were so increased then you would be able to do so. If they were not then you would have to continue to wait?—I think so.

11,315 Or to abandon the idea?—Surely am I not right that in that period, assuming prosperous

trade and expanding trade, there would have been the usual demand for increase of currency? It would have expressed itself by a great demand for remittance to India. As Sir Hissel Blackett says, you could if you thought fit, compel that demand further to express itself to the form of additional imports of gold to India by stopping Council sales and sterling purchases, and, under the policy you were pursuing, you would meet the demand for currency by passing on gold to the public. Meanwhile the effective rupees in the country would be wasting, either absolutely—or at any rate the quantity available, even apart from wasting, would be becoming a relatively smaller proportion of the whole amount of currency in use. So that it would naturally, in the end sink into a subsidiary position, provided people were taking your gold as you issued it and were not pressing fiercely for more rupees.

11,316 I understand you would calculate that the scarcity of rupees produced by the cessation of further issues would have the tendency, at any rate, of bringing the hoarded rupees out into circulation and replacing it by other stores of value, thus dealing with one of the most essential difficulties?—Yes I think it would have that tendency, but I accept the views of all the Currency Officers of the Government of India in the last few years, namely, that that tendency has been going on very rapidly already and I should think it probable even if there was no change of system that as long as India can, by trade channels or otherwise, import gold with perfect freedom, the amount of rupees left in the real hoards, as distinguished from mere little pocketfuls of savings will ultimately become small. I need not say that I do not recommend any policy of introducing a gold currency. That is why I relegated that to a footnote.

11,317 I have only one question on the choice of the rate. You say in paragraph 16 "If the objection really means that after experience of a series of busy trade years followed by a deficient monsoon and black trade a compromise rate, as it were, could be selected as fairly well adapted to good and bad years alike it is, I think wrongly conceived." Will you expand that argument?—Suppose you have a series of five or six reasonably good years, we will say—certainly with no great setback in any one of them. A rate of exchange, let us say has emerged at the end of that time. Suppose it be 1s 6d. It is a reasonable assumption—it is the only assumption you can make if you have to make assumptions at all—that prices have in that period adapted themselves to the rate of exchange which at the end of it, you find in existence. That is a sound established rate of exchange for the conditions that you have been passing through and which are still existing. If you then have a catastrophic setback (and all these Indian setbacks are in the nature of catastrophes) the conditions are reversed in a moment. That rate of 1s 6d cannot be a good rate for the year, or year or two, you may have to pass through. But this would have been equally the case if you had had five good years, and a 1s 4d rate had emerged by the end of the period. Prices would have adapted themselves to that, on a higher basis than they would be with the 1s 6d rate, and when the strain came I think it would be substantially the same strain. I do not think it is correct in theory to think that you start a bad period after a prolonged good period in a more favourable position if you are at a lower rate than you do if you end the good period at a higher rate.

11,318 Too would put it in this way perhaps—that once any rate is established, in the sense that prices are adjusted to it it would be subjected to no equal strain, whatever it absolutely may be, by a series of bad years or other influences of the sort?

\* May I add, in correcting my evidence, that I should think it very well possible if the step had to be taken and persisted in.

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[Continued]

with the question of establishing a central bank. Right through your Memorandum you seem inclined to recommend the establishment of a central bank, and also you have said so in the course of your evidence to-day, but you conclude in Section VII paragraph 24 of your Memorandum that your inclination is to postpone the true central bank for the present. May I ask why you recommend that a central bank should for the present not be established?—You will understand that this Memorandum is the first shot (as it were) at a co-ordinated expression of one's views, and that one gets to see things more clearly as one thinks them over even afterwards, especially under the stimulus of discussion. Before I specifically answer your question I would like to say as I have been trying to say in effect all through my evidence, that there are two points that I take on this banking question: one is that if a live effective true central bank can be established to-day in India that is far the best solution, and I look with some apprehension on the endeavour to transform a commercial bank into a central bank without any radical restriction of its commercial functions, but I have not felt that I had the authority or knowledge to come before this Royal Commission and say I recommend you to establish a central bank because I have not the authority and knowledge to say that a central bank in the limited Indian money market would have enough vitality and enough work to do and could function efficiently. That is my first point. I want a central bank, but I do not regard myself as a person who has the right to say that there can be a central bank. My second point put forward with some hesitation is that I am so clear as to the prime importance of the development of banking throughout India, and of the transfer of monetary administration and remittances and so forth to banking control with whatever degree of Government association may be required that if the central bank is not possible I would sooner run such risks as attach to making use of that splendid agency which already exists in India, though it is not a true central bank than hang up the whole thing altogether. Now coming to your particular question when I say 'My inclination is to postpone the true central bank' I think it is a sentence I should like to amend, but taking it as it is, the position was that I was under the impression that there was some doubt as to whether it is possible to establish a central bank in India, owing to the limited character of the work available for it and so on. So that if I had to express an opinion one way or the other I was disposed to say not feeling sure that a central bank can be usefully established now that my inclination would be to try and do what we can with the bank we have. I think that makes my position clear, though it is a little hesitant.

11 40\* If I understand you correctly, you would rather hand over the management of the currency to the Imperial Bank as it is at present constituted?—If we cannot have a true central bank.

11 40S If we cannot have a proper central bank?—That is right.

11 409 Your hesitation about it is founded on a doubt whether with the present banking organisation a central bank would have its place in the country?—Yes.

11 410 You rather think that a banking organisation should be built up first and the crowning piece should be the central bank?—I want the central bank to be brought in as soon as it can be done, but it obviously cannot be brought in until banking organisation has reached a certain point. Whether that point has been reached or not I do not feel I have authority enough to pronounce.

11 411 Let us suppose for the purpose of this examination that a 'pukka' central bank is established, you would recommend—you refer to it twice in your memorandum—that the Government of

India, and the Secretary of State, should be closely associated in determining the higher monetary policy of the bank. Dealing first with the association of the Secretary of State in London with a view to carrying out the recommendations of the Genoa Conference may I remind you that the Genoa Conference also recommends that banks and specially banks of issue should be free from political pressure and should be conducted solely on lines of prudent finance.—Well there is rather a misunderstanding there, for which I am entirely responsible. At the end of my Memorandum I come quite definitely to the distinction between what I call the true central bank, the pukka central bank and a grant-making institution enjoying Government support but not a true central bank. In the early part of my Memorandum I had not that distinction prominently in mind. I had chiefly in mind the Imperial Bank invested with these functions. The general tendency of what I say and what I think is that the more we transfer work to the Imperial Bank of India, without any radical modification of its constitution, the more necessary it is that there should be visible Government association with that bank, but if, instead of such an arrangement, you set up a true central bank, then the particular standpoint from which I recommended close Government association would disappear. That question would have to be approached from a slightly different standpoint. One point one has to consider in the circumstances of India is the personnel available: you have distinguished bankers and you have distinguished commercial men in India, but whether you take officials or whether you take non-officials in India or whether you take both together I do not believe there is such an abundance of first-rate men that you can afford to dispense with the best stuff you can get. I think the best central bank as regards non-official personnel, which you could start in India would have to be, probably for some time, strengthened by the best personnel from the official element. Similarly I think if you are considering the converse case of Government management of the currency there is no doubt at all that the best official element would be strengthened by association with it of the best commercial element. You cannot afford to waste good men in India because you have not got too many. That is one standpoint. Another is (though I am aware of that Resolution of the Genoa Conference which you have just cited to me) that I understand it is the practice in regard to State Banks that the Government should have a certain voice in the appointment of the higher directors of the bank. I think (though I am subject to correction there because I do not know much about the American system) that it is the case that the Secretary of the Treasury in America is Chairman of the Federal Reserve Board.

11 412 In other words what you have in mind is, if a real central bank were established the appointment of the Governor and Deputy-Governor—and possibly the appointment of a minority on the Board?—Yes I think I would say that.

11 413 I think you suggested that if the management of the currency were handed over to a real central bank it would nevertheless be advisable to retain the present custom of keeping two reserves, the paper currency reserve and the gold standard reserve, as they are to-day. Do you see any particular virtue in keeping two separate reserves?—No I do not. I told the Chairman in answer to a question that I do not profess to have come with cut and dried proposals on every point, but if you have got your real central bank I can see no sufficient justification in handing over the paper currency reserve to the central bank and the gold standard reserve to the Government, which I think was the proposal that Mr. Keynes made in his proposals for a State Bank in 1913—many years have gone by since then of course—or in handing both over to the central bank and maintaining these

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[Continued]

as separate reserves. There is a little mechanical difficulty in lumping the assets of the gold standard reserves into the paper currency reserve at this moment, because the assets of the gold standard reserve exceed the uncovered assets of the paper currency reserve, so that you would actually get a surplus strength. I think the book debt portion of the paper currency reserve is 40 to 50 crores, and the size of the gold standard reserve is 50 to 55 crores. What I should be disposed to do—it is no solution, but it is merely a form of putting it on paper—is to settle first what you intend to have in your paper currency reserve as a permanent uncovered issue—the book debt portion—and put in the assets of the gold standard reserve to replace the rest of the present book debt. Say you take 20 crores, and say the uncovered issue is now 45 crores put in 25 crores of the gold standard reserve so as to make good the reduction of the book debt. Then the only use you could have for the remainder I think would be simply to hold it to feed the paper currency reserve for the further support of the exchange eventually you would take out rupees when those were redundant and replace them in the paper currency reserve with gold or securities so that the paper currency reserve would come before the monetary world of India as the main reserve which guaranteed the convertibility of the note and the maintenance of the exchange and the surplus assets would simply be so much surplus assets.

11,414 That is only a mechanical way of presenting it. I said so.

11,415 Your view being that if a central bank is established, a single reserve would do the work equally as well as in fact better than the two separate reserves?—Equally well and with less obscurity.

11,416 Because both reserves serve to maintain the external value of the rupee?—Yes.

11,417 One the note and the other the rupee coin. Well I do not like to make a sharp distinction like that. The assets of the paper currency reserve are so largely in fact maintained to support the external value of both the notes and the rupee that I do not like to make any distinction between notes and rupees in that respect. I think it is a wrong distinction.

11,418 (Sir Reginald Maitland) In paragraph 12 of your memorandum you say "I think that the Government of India Memoranda are right in seeking for some clear decision as to the future place of gold in the Indian monetary system. We should work definitely towards a gold currency, or definitely adopt as normal practice the use of gold exclusively for supporting exchange." I gather from your memorandum and your evidence that you are in favour of the second alternative?—Yes.

11,419 You would use gold exclusively for supporting the exchange?—Yes.

11,420 I want to ask you why in that same paragraph you say that you would "allow tenderers the facility of getting gold converted into sovereigns and recognize the sovereign as legal tender." It seems to me that is not quite consistent with the object which you favour of using gold exclusively to support the exchange?—I think there is no inconsistency. By the words the use of gold exclusively for supporting exchange I mean the use of gold in our reserves. You will see the same point put in Mr. Kisch's memoranda. It seems to me that considering the enormous extent to which gold is still and freely handled and interchanged in India that it must be for many people a considerable convenience to hold gold in the form of a unit which has a definite weight and definite fineness and definite value. It could always be used as bullion if they preferred it but on occasion whenever they liked if it is made legal tender and if gold that is brought in is minted as far as people desire it to be minted its holder wherever he is can get the maximum advantage out of it. That

is all I mean. I am not frightened of too much gold getting into circulation in that way. The suggestion I make here is not an attempt to satisfy aspirations for a gold currency. It is merely an attempt to give people in India a certain facility in respect of the gold which they are, in fact, constantly holding.

11,421 In making it legal tender you provide for the use of gold for currency as well as for export in your scheme—Being legal tender gold not by *originally for saving* could be readily used at any time e.g., to pay a debt. It would not be necessary for the owner to sell his gold first in order to get currency.

11,422 You are not apprehensive that that would stimulate the use of gold as currency, which is an object you do not wish to achieve?—I do not wish to stimulate the use of gold as currency, but I do not object to people so using it if they like. I do, as I say, subscribe to the view that India should not be hampered in obtaining the gold she requires. I might have added, in using the gold she requires.

11,423 Is currency?—Is currency.

11,424 In paragraph 21, Section E, you refer to the question of deflation, and in your answers to the Chairman you elaborated that point?—Yes.

11,425 I gather that your view is that there should be a legal obligation to provide foreign exchange at all times?—Yes.

11,426 Whether the agency is the Government or a central bank?—Yes.

11,427 Your anxiety is chiefly to insure that the provision of that exchange should secure the necessary deflation?—Yes, that is one of my anxieties—one of my wishes.

11,428 We have had the contrary anxiety expressed before us that if we impose a cast iron obligation of that kind deflation might at times, cause severe monetary stringency, and some safeguard or safety valve should be provided. Have you any views on that point?—I have very strong views on the point. You said "a cast iron obligation of that kind?"

11,429 A legal obligation to provide foreign exchange without limit in exchange for internal currency—I am sorry I had not quite understood you. May I still just one correcting observation, and then say what I do now understand? I meant in my answers to the Chairman to explain that I did not think the obligation to deflate could be cast iron. I want that to be understood. However desirable deflation may be at a time when you are providing reverse remittances, I do perceive that you probably cannot have it absolutely cast iron, and I pointed out that with the Government balances too there would be difficulty, and that I thought the Central Bank might be trusted to wisely hold the reins in the matter of policy with regard to the extent to which it deflated and to the extent to which on special occasions it allowed some departure from the rule of strict deflation. Now I come to your question which I think really means this, does it not? That from the standpoint you have mentioned we ought to hesitate in accepting an obligation to provide unlimited reverse remittance because in one way or another it implies a corresponding obligation to inflate to the same extent.

11,430 Practically I think, it does because in the normal course the sterling or gold reserve would be used by the Central Bank for meeting the demands for foreign exchange, and so far as those reserves were used deflation would necessarily follow.—Well I do not see how you can get a gold standard without an undertaking either to provide unlimited gold for export or to provide unlimited external credit. I do not see how you can give way on that point. Though I do not agree with the gold currency, I heartily agree with Indian opinion in

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[Continued]

wanting a real gold standard a stable standard looking back—you and I look back over many years of experiment and experience—I cannot think that this stated weekly amount procedure is at all consistent with a really stable standard. Therefore, I do hold to it that there should be an under-lying to provide unlimited external credit, or unlimited gold for export. Therefore if that view is adopted and the difficulty you mention arises and has to be met it must be met on the deflation side—that is you may have to provide for permitting deflation not to take place to the full extent. I believe that will be the main difficulty with a gold standard. The point is one of much interest to me, and I think it must be to you. In the earlier discussions, and there have been constant discussions as to what would constitute an adequate gold standard reserve, I do not remember anyone ever asking what amount of deflation can India's monetary system stand. People have talked of £40,000,000 or £50,000,000, and so on or of letting the reserve grow indefinitely, but I think probably that our assets to-day have reached a figure which is beyond the amount of deflation which India could or would stand when it came to it. I can only say that the normal procedure should be to allow deflation to take place and that if it threatens, as some of us think it will threaten, to be excessive, you will have the best solution of that difficult question if you have functioning there already a Central Bank with the necessary wisdom and the necessary impartiality. That is the best I can say on that point. I think it is a fundamental difficulty ahead of us in the future, but I would not meet that difficulty by derogating from the completeness of the gold standard in form and constitution.

11,431 (Sir Purshottandas Thakurdas) The commercial character of the Imperial Bank which you consider to be a drawback for the purpose of a Central Bank is also, according to your statement a source of great utility for the development of banking in India?—That is so.

11,432 What would be your view with regard to my suggestion that the commercial activities of the Imperial Bank should be transferred to some other institution?—My idea of the Central Bank would be that if it were started the present Imperial Bank would remain with its complete commercial character and certainly I should think with some freedom from the restrictions which now hamper it because of its close association with the Government but the Central Bank would in the first instance, have control of the Government balances and so forth. Naturally it would utilise those great institutions which already exist and those balances, I take it would be put at the disposal of trade through the Imperial Bank in the main. I do not know if I have made myself clear.

11,433 I merely wanted to get clear if I have understood you correctly that under no circumstances would you entertain the idea of the Imperial Bank, and the Government through the Imperial Bank, abandoning the very useful work that is being done in the development of the banking system in India?—No.

11,434 You would attach very great importance to that?—I attach very great importance to that.

11,435 You just said with regard to the Imperial Bank as it at present exists that its activities along commercial lines are hampered and I understand you would like some of the restrictions to be removed?—Perhaps I was a little uncertain. I have not studied the question recently at all myself. I do not remember, for instance at this moment what is the exact position that the Imperial Bank now holds as to borrowing in England. That is one of the restrictions which if it still exists, I think ought to be removed. But it probably has already been removed. All I mean to say is that their charter or their statute, if they submit such a

request should be re-examined and the fact of a Central Bank being established might be found to justify the relaxation of restrictions which have hitherto been considered necessary.

11,436 In that case, what value do you attach to complaints from other banking institutions in India, principally exchange banks that the monopolistic character of the Imperial Bank will be increased still further if the Note issue is handed over to it?—I attach great value to any representations which the exchange banks might put forward in the event of important changes in the banking system. I recognise that there may be real difficulties and I cannot pretend to tell this Commission how I think they would have to be met. I would like to put this point first. If you do not have a central bank, and you do invest the Imperial Bank with these functions which the Government of India proposes to transfer by that method you create a situation in which the exchange banks might have greater cause of complaint than they would if you hire a central bank. That I feel sure of. But in the other case, too this is, with a new institution like a central bank at the top and the Imperial Bank with its great organisation working in close alliance with it, hardship might certainly be felt by the exchange banks which they might find it necessary to represent. One of my difficulties in saying more than I have said in my memorandum about the possibility of giving this extra work to the Imperial Bank was that I felt I really should not venture to offer an opinion, if I were still a person in some measure of authority until I had a real talk with the Imperial Bank people and with the Exchange Bank people, and had had a complete interchange of views.

11,437 I take it that you would agree that on principle you would not attach much importance to any representation by the exchange banks but on specific points you would be disposed to examine their representations?—I think you have got my view in substance. I would not allow the exchange banks to stand in the way of far-reaching reforms and developments, and I do not think the exchange banks would want to do so. But they have done great work for India and deserve very great consideration and they may be prejudiced by the changes which are being considered. Accordingly their situation would have to be considered very carefully.

11,438 On specific points?—Yes.

11,439 In paragraph 4 you suggest that there should be established machinery for joint consultation between the Governor of the Bank of England, the London representative of the Imperial Bank of India and a representative or representatives of the Secretary of State in Council. May I ask why you say there should be a representative of the Secretary of State in Council?—I think your people will stand higher in London if they are in close touch with the Government.

11,440 In touch with the Government? You mean by Government, the Secretary of State and the Government of India?—I think it is true that they would stand higher with strong representation in London, but also—to come to points of principle—I am not prepared, as a matter of principle to concede that the Secretary of State in Council can disinterested himself in everything concerning the monetary affairs of India. The exact manner in which he shall interest himself may vary a great deal according to whether you have a central bank or not, but that he can be disinterested is a thing I cannot admit. He has a great responsibility to the holders of Indian stocks in this country—where they are Trustee stocks—and as I say he has a right in theory, I think to ensure that he is fully represented. In practice a great deal depends in determining the manner of control or intervention or oversight or contact even putting it as low as that—a great deal depends upon the particular system you have.

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[Continued.]

11,441 The Committee here of the Imperial Bank is an Advisory Committee, as you know?—Yes.

11,442 As you may, perhaps be aware, there is already the Governor of the Bank of England on that Board?—Is he on the Board?

11,443 He has been on the Advisory Committee from the very beginning?—I did not know he had any formal function. I know he is in close touch.

11,444 On the Advisory Committee there is the Governor of the Bank of England and a representative of the City, at present Sir Malcolm Hogg—with the London Manager of the Imperial Bank as Chairman. You now suggest the addition of one more representative at least and perhaps more, of the Secretary of State in Council in order that he may be able to watch the interests of the lenders to India in England. Is that it, or is not what is your meaning, because I was not able to follow it?—Partly from that point of view and partly in pursuance of his statutory obligations of superintendence, direction and control.\* If there is anything really being done in London if you have a Board on which it is necessary to have the Governor of the Bank of England and an important commercial man like Sir Malcolm Hogg I think it is not to be recommended that the Secretary of State only access to the Imperial Bank should be circuitously through the Government of India and through them to the Directorate of the bank in India. If there is important business going on in London and important considerations of policy are being discussed which are significant enough to require the strength you already have I think that is a point at which touch should be established with the Secretary of State, who has a heavy responsibility in the matter.

11,445 But would not the important work of the Executive Committee of the Imperial Bank always be in India? All you would want here is an advisory Committee in order to keep the Central Board in India in as much touch as possible with London?—I know the Governor of the Bank of England and I think anything he is on is going to be decidedly important. I think it is important on the merits that the Bank Direction in India (with the Government of India in some measure associated with it)—this combination of authorities which directly and executive controls India's monetary policy—should have its counterpart in strong representation here, in which a natural element would be representation of the Secretary of State in Council.

11,446 Do I understand you to suggest this as a counterpart to the Central Board of the Imperial Bank in India? There is only an Advisory Committee of the Imperial Bank in London. I did not gather until now either from your written statement or from the discussion that we have had this morning that you suggested this as a counterpart of the Central Board of the Imperial Bank—I see your point.

11,447 It is rather a new aspect which I would like to see developed if you do not mind—I see your point. I would not use the word 'counterpart,' perhaps but I would put it in this way. You have this machinery in London—you obviously must have it you must have representation in London. The Secretary of State obviously apart from any question of direct association with any bank must exercise his financial responsibilities—his general responsibilities of superintendence and direction and control. It is most important I think if he is to exercise those wisely that he should be in contact with any machinery which you have in London for representation of the Imperial Bank.

11,448 I put it to you that your suggestion may lead to undesirable complications. The Secretary of State's representative on the Advisory Committee here may express certain views and the Central Board of the Bank after taking cognizance of

everything in India may come to a different decision inasmuch as the Secretary of State has power to veto, and certainly to control, the Government of India, that may lead to great complications. It is very necessary that the authority finally controlling the Government of India here should not be represented in Indian matters independently of the Government of India. Well I think you have put your point with force, it does not alter my view, but I see the force of your view.

11,449 I wonder whether there is any other point of view than the one which I just now mentioned which deserves consideration?—I see the force of what you say. I just want to add that there are fundamental difficulties in governing by a very great authority in India, especially under modern conditions controlled by Parliament at home. There are great difficulties in such a situation, necessarily, and I think the difficulty referred to is merely an offshoot of the fundamental difficulty, but I think I have given you my answer.

11,450 I will pass on to another subject?—Yes.

11,451 In paragraph 7 you have this "The use of gold coin abandoned in the United Kingdom." Is it really abandoned or is it in suspense?—I think it is abandoned.

11,452 Is it?—Theoretically it is not, theoretically, I believe anybody now has the right to go and get sovereigns but we work so little by rapid prescription in this country, and so successfully without it that people are not taking gold sovereigns out to carry in their pockets, and I imagine they will not do so.

11,453 I will read to you one sentence from the Report on Currency and Bank of England Note Issues 1927. Paragraph 48 says as follows "We are decidedly of opinion that steps must be taken forthwith by legislative enactment to prevent the internal circulation of gold, until such time as the gold standard has been firmly re-established for the purposes of international transactions." Does that mean 'abandoned'?—No, undoubtedly in terms it does not mean abandoned, but I think there is good reason to say it is at this moment *de facto* abandoned. There is also fairly good reason to think that that will go on indefinitely but as regards my main point of view if at you can have an effective gold standard without a gold circulation I do not think my position is impugned at all by that.

11,454 Have hopes not there been expressed in some of the chairmen's speeches at bank meetings in London expressing the hope that gold currency would be introduced in England as soon as possible? I remember having read some of them on my way here—I generally read those speeches but I do not actually remember that myself. If you have a positive recollection of course that outweighs my negative recollection.

11,455 That makes me think that for the word "abandoned" in your Memorandum there should have been substituted the words "held in suspense", that would be more accurate, perhaps. You only get abandonment if by statute you give it up?—I do not find really, much reason to quarrel with what I have said here but you have every right to put this point. When I say "abandoned," I must not be taken as meaning that under no conceivable circumstances could some Government or body of opinion come forward which will have the result of the sovereign being re-introduced but it has been so definitely abandoned for the time being and possibly for a long time being that the position can properly be taken up that you can have a gold standard without a gold currency.

11,456 In paragraph 10 you say that there is a good case for holding sterling securities only in the most realisable form in the Reserves. I suppose by that you mean Treasury Bills?—Yes.

11,457 That takes me to what we heard in India, that when India holds sterling securities in any form here, it may be urged that by selling those securities,

\* And partly with reference to the considerations referred to in paragraph 4 of my written statement. J. B. B.

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SIR JAMES BRUNTATE KCSI, C.I.E.

[Continued]

11,465 So that so far as that goes there is nothing extraordinarily wrong in that?—I do not quite know what countries you are referring to.

11,466 South Africa?—Yes.

11,470 There is no country where gold currency exists without paper currency as well?—Wherever there is gold currency people are also taking notes—I suppose there is no doubt about that.

11,471 In paragraph 15 you quote some figures for England and India and you come to the conclusion that those comparative figures help to transfer the burden of proof with regard to the rate of exchange. It has been said before the Commission by certain witnesses that in spite of figures similar to those you quote here Great Britain made heroic efforts to get back to pre-war ratio. Is there any reason why India should not aim at doing the same thing with regard to the rupee?—In the terms in which you put it, you state what is apparently a striking anomaly, but I think if one looks at what the facts really mean there is no anomaly at all. One may be misled by labels. What has happened is this. I take it that in no large country in the world does the unit of currency to-day represent the purchasing power that it did before the War. All have depreciated. When you say that in other countries the level representing exchange parity has gone down or merely been maintained whereas it is proposed in the case of India that the level should be raised all you mean is that the economic facts of the situation permit of India being in the advantageous position of not having her standard of currency depreciated as much as other countries' standards have depreciated. That I regard as clearly an advantageous position whereas when you put it in the form that the standard ratio is being enhanced in the case of India alone and is lower or more maintained in other cases you put a point which suggests a certain artificiality and arbitrariness. When you look at the facts, you see there is no arbitrariness or arbitrariness but merely that India is in the convenient and advantageous position that her standard unit has not depreciated as much as the standard unit has depreciated in other countries.

11,472 Why not let her enjoy that advantageous position?—That is what adherence to the present rate implies.

11,473 In paragraph 23 you refer to the Secretary of State's drawings. May I ask whether there would be any special inconvenience caused to the Secretary of State if his requirements were remitted here from India, or if he drew from here on in India as might be finally settled according to the scope of his requirements as they came up. The last Report of the Controller of the Currency for 1924-25 says that the minimum balance the Secretary of State had in hand was about 101 million and the maximum 222 millions the average being 151 millions against a total requirement for the year of 30 millions. That is how the figures stand. Certain remittances are being made from India by the Secretary of State drawing from India in accordance with his requirements?—I wonder if I might ask before I attempt to answer the question what is to happen as regards undrawn amounts if I may so call them.

11,474 Do you mean the balance?—The Secretary of State draws first upon the available fund that the Government has to spare in India. If any further drawing is required it is operated through the paper currency reserve. The question I wanted to ask was whether you contemplated that the Secretary of State's drawings should fall short of the surplus which the Government have in their Treasuries in India.

11,475 I contemplate nothing. I wanted only to ask you as you were Chairman of the Finance Com-

mittee of the India Office what inconvenience would be caused to the Secretary of State for the purposes of his requirements here in these circumstances. If it was said that he could get in regular instalments as and when payments fell due the amount that India had to remit here namely 30 million pounds and keep only a small balance here of 7 or 8 millions in case of need what would be the inconvenience caused to the Secretary of State?—It is a much more complicated question. I think than perhaps you realise.

11,476 I do not want to press you if it is a question you are not prepared to answer but I thought in view of your long experience of the India Office perhaps you could answer it?—I have to consider if you reduce the amount of drawings what is going to happen to the funds which you would have drawn under the existing procedure and do not draw under the proposed procedure and so forth.

11,477 (Sir Lushington Thakurdas) If I may say so I do not think those considerations come in at all. The question only refers to the requirements of the Secretary of State and the inconvenience if any it would occasion him if he got just what he required and no more. The other considerations stand apart if I may say so. The question is What is the inconvenience which would be caused to the Secretary of State if he were to draw on India or there were to be remitted to him from India amounts in such sums as may be necessary for his requirements in London?

11,478 (Chairman) Perhaps you will let us have a written reply when you have looked into the matter—Certainly if the Secretary will post a copy of that question to me. It is not that I want to devote a great deal of time to it but it is a question which would require more consideration than can be given in the one or two minutes which remain before the Commission rises.

11,479 (Chairman) It is a question which opens up many aspects and perhaps a written note of it would be most satisfactory.

11,480 (Sir Virendra Narayan) I see in paragraph 521 enclosed on B that you say you would hand over the issue and exchange machinery with their resources to the Imperial Bank for administration?—Yes.

11,481 Do you contemplate in that event an initial issue of Imperial Bank notes for the present currency notes of the Government of India?—Well I see that it seems to be accepted by every authority that you cannot have a bank issuing a Government note and of course it is a natural thing to assume I have wondered if it is a necessary thing to assume. There is no doubt at all whatever the banking arrangements might be whether it is the Imperial Bank or whether it is the Central Bank that the Government created and so forth will be intimately bound up in the maintenance of those institutions. If you are introducing great changes particularly of course the gold currency business with its great tendency to disquiet holders of currency I would personally rather waive the point of parsimony and let the Bank issue the notes in the old form than introduce that additional complication of changing the form of your notes just at the time when you were commencing the policy of altering the status of your rupee. I would rather do the two together and I doubt whether it is necessary.

11,482 (Chairman) We are greatly obliged to you for your very full assistance this morning and I trust we have not overtaxed you—I am not overtaxed but I hope the Commission is not over fatigued.

\* See Appendix—

(The witness withdrew.)

10 March 1926]

Mr Cecil H Kisch C.B.

[Cont. nued]

## THIRTY THIRD DAY

Wednesday, 10th March, 1926

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG P.C. D.S.O. D.S.C. M.P. (C) r an)

S<sup>r</sup> RAJA BHAVATH MOOKFARAJA K.C.I.E.  
A.C.I.O.S<sup>r</sup> NOROOT HASTINGS YEELES WARREN K.C.I.L.S<sup>r</sup> RAG NALD MANT K.C.I.F. C.S.I.S<sup>r</sup> MANECKJI BYRASJI D. DABHOY K.C.I.E.S<sup>r</sup> HENRY STOKROSCHE K.B.F.S<sup>r</sup> ALEXANDER ROBERTSON MURRAY C.B.E.S<sup>r</sup> KURSHOTAMD & THAKURDAS C.I.E. M.B.E.  
M.L.A.

Professor JAMA GIR COOVERJEE COYAJEE

Mr WJ LEAM EDWARD PRESTON

Mr G H BAXTER

Mr A ANANGAO

(Secretaries)

Mr Cecil H Kisch C.B. recalled and further examined

11443 (S<sup>r</sup> R. N. Mant) There is one point in the evidence that you gave us on Friday which I should like you to make clear. In your memorandum and in your oral evidence you recommended that I understood you rightly that the Central Bank of India should be placed under a Statutory obligation to sell gold or foreign exchange on demand at any time to an unlimited extent but later on when we were discussing the possibility of a divorce between gold and sterling you suggested that the obligation to be placed on the Bank should be to issue a note for a standing offer to sell gold or foreign exchange and that the note fit on market will be withdrawn or not fixed at any time. This appears at first sight to be a material modification of your previous recommendation. I am not sure whether that is what you intended and I shall be glad if you will elucidate this point. In the course of the discussion on last week as to what might happen in hypothetical circumstances if sterling became depressed from the point of view of the cardinal position which I have tried to allude to on previous occasions may perhaps have been obscured. The question I asked before the Commission was that it is essential that the rupee should be unfettered to gold and the form in which that must be done is by Statute. The Statute would define the Bank's buying price for fine gold in terms of rupees per rupee. It would also define the Bank's selling price for fine gold or equivalent gold exchange in terms of the rupee. The equivalent gold exchange would be a sum in foreign currency calculated by the Bank with the approval of the Governor-General in Council to represent the standard price of the country outside India concerned less a percentage representing the normal charges of a remittance of specie from India to the country concerned. For this purpose the Bank shall not rely in the Gazette of India with the previous approval of the Governor-General in Council the country or countries upon which gold exchange shall be issued and the rates of gold exchange per rupee.

11444 Could you give us any indication of the precise form which the Statutory obligation should take? I have thought over that matter and I am glad to have the opportunity of putting before the Commission the sort of lines of a draft Statute although of course the Commission must understand that I am not a legal draftsman and no doubt the language would be susceptible of improvement when it got into the hands of a drafting expert.

11445 I only meant your rough definition of the matter?—I was going to suggest something of this sort.

The Bank shall receive from any person making a demand at the head office in Calcutta or Bombay or at any other office of the Bank which may be notified

by the Bank for the purpose in the Gazette of India of gold bullion or gold coin which is not legal tender in India on exchange for Government rupees or Bank Notes at the rate of X grains of fine gold for one rupee subject to conditions to be notified by the Bank in the Gazette of India with the previous approval of the Governor-General in Council. The condition as to the sale of gold or equivalent gold exchange would be something of the following.

The Bank shall sell to any person in India who makes a demand on that behalf at the head office in Calcutta or Bombay or at any office of the Bank which may be notified by the Bank for the purpose in the Gazette of India and pays the purchase price in any legal tender gold at the rate of X grains of fine gold for one rupee or at the option of the Bank an equivalent amount of gold exchange payable in any country outside India approved by the Governor-General in Council and maintaining a free gold market subject to the following conditions: (a) No single demand for gold or gold exchange shall represent a less value in gold than approximately 400 ounces of gold. (b) the equivalent amount of gold exchange referred to shall be a sum in foreign currency calculated by the Bank subject to the approval of the Governor-General in Council to represent the standard price of X grains of fine gold in the country outside India concerned less a percentage representing the normal charges of a remittance of specie from India to the country concerned. For this purpose the Bank shall not rely in the Gazette of India with the previous approval of the Governor-General in Council the country or countries upon which gold exchange shall be issued and the rates of gold exchange per rupee.

11446 Will you let us have a copy of that draft?—Certainly I will see that it is supplied to the Secretaries.

11447 It will then be circulated to the members. In the any other point in your previous evidence which you would like to amplify before we proceed further?—The only other point to which I want to refer is the question of the figures relating to sales of silver. In regard to those figures you suggested that 50 crores was treated as a maximum holding. I mentioned in my report on the point that had escaped me at the time that the reason why that was taken was that if we were assuming a 40 per cent metal content with a total note circulation of approximately 200 crores the metal holding would have to be just about 80 crores. There were 30 crores of gold held. Therefore on the assumption of the 40 per cent metal content 50 crores of silver would have to be held. I want to put that in to make the point clear why that figure was taken. I have since made some further investigation into the matter and on the



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[Continued]

currency in the course of months you would yourself be keeping a close eye on the market from day to day and would direct your policy in regard to the conversion of your rupee balances into foreign currency according as things developed and according to the advice you got from your competent advisers and according to your own knowledge of your obligations on the other side. You would never I suggest, make the thing over absolutely to an agent and dis-interest yourself in the day to day steps which affect the rate at which you remit and the volume of the remittance from time to time.

1152. Those are the objections you had in mind in paragraph 4 are they? Before 1914 when the exchange fluctuations were comparatively narrow do you think there was anything in the suggestion of catching the market to which you have just referred?—I think a proper discharge of the duty of the Government to the Indian taxpayer does require it to watch the fluctuations of the market just in the same sort of way that a big business house having remittances to make from India to this country would be constantly in touch with market movements. I think that is a desirable and necessary thing to do even if the possible range of fluctuations is perhaps only something about 1 per cent or perhaps less.

1153. Then it is only from the point of view of being able to remit at the most advantageous rate. There is no other point of view from which you think there would be an objection to trying up the Secretariat of State by an advance monthly programme?—You suggest that we should leave the Government of India free to remit funds from India to London at such moments as they think to be to their best advantage?—I think that is one of the most important aspects of the case. We know roughly speaking what our commitments may be but they may vary in surprising ways from time to time and one wants to keep a free hand in dealing with what are the balances of Government. They must not get immobilised.

1154. That is the most important point of view from which you think there would be objection, namely that it would not enable the Government to take advantage of a suitable moment at which to remit the money?—I think that is one very important aspect of the case.

1155. Is there any other objection which you think is equally important?—The principal reason of course is that the obligation on Government is to meet its commitments. That is the thing which it always has in front of it and which it tries to work in with the market prospects as advised by competent people.

1156. That is a question of exchange again?—That is the essential part.

1157. Lower down you say. The action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead. The total amount which you require out here from India is at present round about £30,000,000 is it not?—The actual amount that may be required from year to year depends very much on whether or not we have to borrow in London for the purposes of the capital obligations of the Government. If conditions are favourable it is to the interest of India not to increase its external obligations and therefore if the Government of India find themselves in a position to borrow in India and to remit the money to this country it suits them to discharge not only the revenue obligations if the Government in London but also the capital obligations. Though we can say that the revenue obligations are somewhere in the neighbourhood of £20,000,000 the amount of the capital obligations which it may at any time be possible to meet without sterling borrowing depends very much on the course of exchange and market conditions in India.

1158. Taking the last 2½ years it would be correct to say that all this is very approximately

fixed up between the Government of India and the Secretary of State before the presentation of the Budget in India and is therefore well known to both sides before the financial year begins?—The figures in the Budget given for remittance I think are always understood at the time to be rather of a rough nature as showing the way in which things may work out as distinct from the way in which things will work out. The Government of India habitually reserve in practice the right to vary the precise methods of remittance as things may develop. It is obvious that in a country like India subject to vicissitudes depending on the monsoon and so on you cannot tie yourself down before and and you do not profess to do so.

1159. Can you refer the Commission to one or two instances where there has been substantial variation from the forecast made by the Finance Member at the time of the presentation of the Budget?—I think it has been the habit in recent years to leave vague in the Budget the precise method in which remittances should be made. I certainly remember in connection with the framing of the Budget the putting in of a figure for remittances required it being perfectly understood that the precise method of making those remittances whether by draft on the sterling assets held by the paper currency reserve on this side or remittances from India in the open market was left entirely open for settlement as the year proceeded. I should suggest that in the last few years it has been quite impossible at the beginning of the year to say. This is how we are going to carry out these remittances and then come the result with the position at the end of the year and say. That has been exactly as contemplated because when the Budget is presented the method of making remittances is in effect left to be worked out as the year progresses.

1160. Let us take the years commencing with the Reforms can you tell me of any particular year since 1911 which necessitated a substantial change from the programme laid down by the Finance Member when he presented his Budget?—I should like to turn up the actual Budgets before I appear before you next and then I will let you have an answer on the point.

1161. Can you tell us roughly the commitments of the Secretary of State here? I understand that 16 millions out of the 30 millions are for interest charges on borrowings of the Government of India here?—The total revenue commitments in the year are somewhere in the neighbourhood of £20,000,000 at the present time of which a large proportion represents the interest on debt.

1162. The dates on which that substantial part of the total obligations is due are of course known accurately?—Yes.

1163. There is another item of payments to the War Office. The dates of those will be generally known?—Yes.

1164. Will you tell me what other payment there is which is not known or cannot be known by the Secretary of State with any fair accuracy?—The amount of the payments in respect of capital stores required by the railway companies which is a very important item has varied very largely in recent years from the estimates owing to questions of contracts being not finished in the time assumed and so forth. There have been very substantial variations in some items of that sort. An important variable is the amount of the capital charges which may or may not be capable of being met without resort to sterling borrowing. That is the reason which makes it impossible to say at the beginning of the year how much you will have to meet by remittances from India and how much you will have to provide by raising it on this side.

1165. Those commitments are of a nature which would be known to the Government of India in fairly

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[Continued]

are in contact at the present moment with the Imperial Bank and it is basic that they should be in contact with any new Central Bank which might be created. I am suggesting that, if the functions of the bank are extended there may be advantage in establishing contact on this side between the supreme executive of the government of India here (which, under the present constitution, is the Secretary of State) and the officers of the bank here because there may be important questions affecting supreme Indian interests on which the point of view of the executive Government in India could be voiced by the competent spokesmen on this side.

11,501 The Committee here of the Imperial Bank is merely an Advisory Committee. It has no executive powers at all, has it?—I believe that is so.

11,502 And contact between the Government of India and the Imperial Bank in India has been satisfactory up till now, as far as one knows, has it not?—As far as I know it has been altogether satisfactory.

11,503 How is your suggested representation of the Secretary of State in Council on the Advisory Committee in London going further to help the Government of India in their contact with the headquarters of the Imperial Bank which you admit has till now been satisfactory?—There may be questions arising affecting the flow of gold to India—(I am not speaking now of a flow of gold for social purposes, but in connection with bank remittances)—in regard to which important points may arise to which India cannot be indifferent, and on which the authority in India may want to be advised by the competent people here. In a case of that kind I suggest the Secretary of State might be in a position to help the people in India to understand the facts of the case.

11,504 The person most competent to advise in that connection in London is the Governor of the Bank of England, is he not?—That is so.

11,505 And you are aware that the Governor of the Bank of England is a member of the Advisory Committee of the Imperial Bank in London?—Yes.

11,506 Do you think the Secretary of State's representative can do better than the Governor of the Bank of England who is present at all the Committee meetings?—I am not suggesting he would do better. I am suggesting he might form a helpful vehicle for making the point of view of the Indian authorities clear to the Governor of the Bank and the views of the Governor of the Bank of England fully understood by the Government of India in the case of any apparent divergence of view arising between the Indian authorities and the authorities here in this City.

11,507 Would not it rather lead to complication in the case of a divergence of views between the Government of India and their supreme head the Secretary of State?—I should hope you would find that the influence of the Secretary of State would be exercised in the way of smoothing down the differences, because many of these differences arise from misunderstandings. A true understanding is really what is generally required to smooth away differences, and my suggestion is that it might be found in practice to be very useful in making the position really understood in India.

11,511 By the Government of India?—Yes by the Government of India. I think, as I say, it would be helpful if they could realise that their own point of view had been put by their own competent spokesmen here to the City authorities, and the matter discussed with them, and the result conveyed to them in that way.

11,512 Who is the competent spokesman of the Government of India in London? Is it the Secretary of State or the High Commissioner?—For all matters affecting the Central Government of India the Secretary of State is the responsible executive—in regard to matters affecting central administration under the present constitution.

11,513 Therefore as far as the question of keeping the Government of India in touch with such matters is concerned the Secretary of State is not the proper representative for the Government of India, is he?—Perhaps you did not hear my previous answer. I said that in regard to central matters the Secretary of State is under the present constitution the authority in this country.

11,514 What do you mean by "central matters"?—When I say "central matters" I am referring to matters within the competence of the Government of India and the Central Legislature as distinct from what are known as the transferred subjects, in regard to which the statutory position is entirely different.

11,515 There does not arise any question of "transferred" subjects in connection with the Government of India does there?—No. That is why I said that in regard to these matters the competent authority on this side under the existing constitution, is the Secretary of State.

11,516 Have there been any occasions up till now when there have been differences of opinion between the Government of India and the Secretary of State?—There necessarily must be matters on which different views are taken by the different authorities at certain times.

11,517 In view of that is it not preferable that the representation of the Government of India, as far as collecting information or keeping them in touch as concerned should be confined to such persons as the Government of India may be able to control and select to that end?—I think in a matter of that kind one has to consider what the statutory position is. As I see the position Parliament has at present ordained that in this class of matter the Secretary of State shall be the authority.

11,518 Has it and nobody proposes that that position should be disturbed. The Secretary of State for the purpose of exercising his statutory rights, can always be in touch, he is in London, and he can easily get in contact with any expert here he likes. Why complicate the position by putting a representative of the Secretary of State on a Committee which is merely an Advisory Committee especially when you have got the best possible person on the Advisory Committee to give advice on matters in relation to gold and precious metals namely the Governor of the Bank of England?—The point of the suggestion is that as the Government of India themselves are not in London and I cannot be in London (which in regard to this and possibly other matters is the vital spot) the task of voicing their views should be vested in the authority legally responsible to Parliament for the actions of the Government of India in regard to central subjects, that is the Secretary of State.

11,519 Have you heard from the Government of India that they desire any representative on the Advisory Board here?—No the question has not been discussed. It only comes into prominence in connection with the contemplated extension of the functions of the bank.

11,520 If the Government of India did not desire representation on the Advisory Board do you think the Secretary of State would press for it?—I doubt if he would press for it if they were averse to it.

11,521 You say "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind." Will you tell us what those objections are?—As I see the position the Government of India are large depositors with the Imperial Bank and I see no reason why they should be deprived of the right, recognised as belonging to a depositor with the bank, of being able to utilise their deposits—the Government of India's deposits—in the way that is thought most advantageous to Indian interests from time to time. It is not possible to foresee the courses of exchange, and as a business man you know that if you held large deposits at a bank in India which you anticipated you would want to convert into foreign

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[Continued]

watching and appointing and nothing of the nature of a detailed day-to-day interference. If the Government had to deal with detailed questions from day to day, I think a considerable—if not the main, part of the advantages of the project would be sacrificed.

11,551 If you create this Reserve Bank I suppose it would have none of the Government balances which the Imperial Bank hold at present?—There would have to be placed in the Reserve Bank, which would make appropriate use of them.

11,552 If that is the case, how could the Imperial Bank go on doing the good it is doing now without the help of the Government balances?—The Reserve Bank would, of course, have to place a certain portion of the balances handed over to it, in one way or another, at the disposal of the market. It is not a part of the proposal that the Reserve Bank should lock up funds.

11,553 I do not mean that. I mean the branches who are going to carry on the branch work?—The Commercial Bank would have to carry on the work.

11,557 Without the balances?—Without receiving the balances direct, I take it, from the Government, but if it is the case that in connection of holding the Government balance the opening of the new branches has been undertaken by the Imperial Bank at the request of Government, and on an unremunerative basis, the Bank might have a claim to make for compensation in respect of obligations and taken under conditions which have not been maintained. That would be a matter for investigation, and if necessary, adjustment. Is that your point?

11,558 No. My point is, who is to continue the good work of the Imperial Bank as regards spreading the banking habit in India if you take the balances of the Government of India from that Bank?—I take it there would be no diminution of the funds in the market, and in practice the Central Bank would in some way or other, make available a portion of the balances deposited with it by the Government to the Commercial Bank. These funds would be available in the market. They could be placed out in the market by buying short term securities and by rediscounting eligible paper. They would not be held inert. Thus the funds would be placed at the disposal of the market, and in that way the deposits of the Imperial Bank would be increased, I presume, in consequence. That is how I should assume the business would be worked.

11,559 Who will do the Treasury work at these branches?—The Central Bank will not, of course, have branches up and down the country. Subsidiary work of that sort would be done by the Bank which has these branches on terms which would be arranged.

11,560 On terms with the Reserve Bank?—Which would be arranged—quite so. That work must be carried on.

11,561 I do not think it would suit India. I think it is a very clumsy arrangement. You know how the Treasury balances are worked in India?—I do. I do not know whether the arrangement of remitting between the various offices of the Bank would necessarily be disturbed by an arrangement of the kind I think that would have to continue.

11,562 (Prof. Coyner) I just want to ask two or three questions on paragraph 2(5) of your memorandum. You are of the opinion that the Gold Standard Reserve and the Paper Currency Reserve should be kept separate and not be amalgamated?—I am inclined to that view. We are now assuming that a Central Bank takes over the administration of both those reserves.

11,563 Do the great European Banks distinguish between the reserves for maintaining exchange and those for redeeming their note issue?—They do not, but those Banks are not faced with the peculiar situation of the unlimited legal tender silver rupee, which has created a special problem and which has led to the creation of a Gold Reserve fund. The point which I had in mind, and which I have thought over since the last discussion was really this—that the Note will be the bankers' Note, and this rupee will

be the Government's rupee, and it would meet the case, so far as I see it, if you have the account of the Banking department, and the account of the Note issue department, and the account of the gold standard reserve—the assets being 50 crores, or whatever the figure may be, and on the other side the corresponding liability "Government Deposits" 50 crores to balance it. My only suggestion was that the silver rupee, which has to discharge the function of providing the internal convertibility of the Note, is not in the same position as the Note, and therefore it is not suitable to add the two together in one combined statement. My suggestion was there should be the two statements produced in the form of a balance sheet, with which we are familiar in the case of Banks.

11,564 You observed in your evidence on the last occasion that as between the paper currency reserve and the gold standard reserve the resources of the former should be directed first to maintain exchange?—That would be the normal procedure.

11,565 Did not the Chamberlain Commission recommend that the paper currency reserve should no longer be regarded as the first line of defence?—I should have to refresh my memory as to what they actually said, but in practice the view taken has been to treat it as available for this purpose.

11,566 (Mr. Preston) I would like to ask you some questions on the Memorandum which has been circulated.

#### RECOMMENDATIONS FOR REVISION OF A GOLD STANDARD LEADING TO A GOLD CURRENCY

(Circulated by Mr. Preston)

1. Stop all further coinage of rupees.
2. Future issue of notes to be paid in metal notes convertible into gold for export purposes only. Such notes fully convertible into rupees.
3. For purposes of this section it shall be understood that "Export" means gold shipped from Calcutta and Bombay to London.
4. No shipment shall be for a less amount than 100,000 gold mohors by any person, at any, or bank whatever.
5. The weight of the gold mohors shall be determined when the exchange parity has been decided upon, but the exchange shall be that of the English sovereign.
6. Council bills shall only be sold to the actual extent of Government requirements in India.
7. All further additional currency as may be required shall only be given against actual tender in India of gold coin or bullion, and such coin and bullion shall be accumulated in India until the fund reaches £100 millions.
8. Legal tender of rupees not to be disturbed but can be reconsidered after 15 years hence.
9. As soon as the new parity has been finally decided upon the rupee value of the gold and sterling securities in the paper currency reserve is to be written up to the said new parity, and a sufficient amount of securities from the gold standard reserve to be transferred to the paper currency reserve to wipe out the "ad hoc" securities.
10. Any balance remaining in the gold standard reserve to be converted at once into gold and shipped to India, as a beginning of the said £100 million fund.
11. Council bills to be sold by public tender either in India, say—monthly and alternately in Bombay and Calcutta, or portion in London.
12. Full liability to legally establish a complete gold currency not before the fund of £100 million has been accumulated.
13. All notes shall remain Government of India notes for ever.
14. The sale of council bills by tender may be undertaken by the Imperial Bank as agents for Government.
15. Having in view the heavy stock of rupees at present in the currency office and in addition, what is held by the Imperial Bank of India, The Exchange Bank, The Indus Bank, The Shroffs and moneylenders in the bazaars—chetties and others in the outlying districts.

To the considerable amount in the currency which must be continuously held in the custody of the many thousands of industrial concerns operating in India, to the equality of the population of India, whose daily transactions must of necessity be by means of paper transactions, it is evident that the amount of rupees outstanding in circulation to-day easily requires a liberal figure—is barely sufficient for ever to contemplate the sale of any portion whatever of Government's stock which really ought to be looked upon as a necessary reserve for not far distant requirements.

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[Continued]

culated dealing with the suggestions for a scheme of a gold standard leading to a gold currency. The first postulate is to stop all further coinage of rupees. Will you kindly favour us with your opinion on that proposition?—I find it somewhat difficult to reconcile that proposition with the proposition in No 13 which assumes that the existing silver holding of the Government will be very readily and rapidly absorbed and apparently it is contemplated that when that absorption is completed there will be a sudden cessation of any further demands for silver. I find it rather difficult to reconcile those two propositions. You are assuming in No 13 that the excess silver holding which the Government now hold will be soon required for not far distant requirements. If that is so the desire of India for a silver coin is apparently assumed by you to continue, though in No 1 you contemplate it shall suddenly come to an end.

11,567 Would not that be rather strengthening No 13 than weakening it?—That is not how I see it. I am only dealing with you on the propositions themselves. You recognise that there is a demand for silver which will rapidly absorb the excess holding of 40 or 50 crores, and that after that has gone in some way or another you will be able to impose a radical change in the habits of the people which has led to that absorption by denying them suddenly any further silver. I find it difficult to fit those two together.

11,568 The present holdings of rupees in India amount to about 75 crores, do they not?—75 or 80 crores.

11,569 You do not want to add to those rupees?—No.

11,570 Therefore I postulate that we stop coinage for the time being?—For the time being, undoubtedly. That is admitted.

11,571 Now No 2—that the future issue of Notes should be gold mohur Notes convertible into gold for export purposes only. Will you favour us with your opinion on that suggestion bearing in mind that such Notes are fully convertible into rupees?—I take it that that suggestion has to be considered in connection with No 5 which contemplates that gold should flow to India for banking purposes as distinct from social purposes, no substantial scale, and that Notes should be issued against gold rather than against sterling securities. On that point I would only say that as the gold is *ex hypothesi* not to be available for internal purposes, it is expensive from the point of view of India, and offers no advantage to cause large amounts of gold to go to India merely to send them back again to this country for the purpose of adjusting an unfavourable trade balance. You lose the interest obtainable by holding sterling securities and no advantage is to be got from making the gold perform unnecessary travelling because you yourself indicate that the gold is to be for export purposes only. That being so, the requirements of a gold standard can be more efficiently given by reducing the actual physical gold movement to much smaller dimensions than this seems to contemplate and by holding gold securities in your note reserve.

11,572 Would not the possession to a holder of a gold mohur Note, which carried with it the right to claim gold for export at any time, do away with all the grave disadvantages which our currency system in India has experienced since 1914?—I do not see that it would in itself do away with them because you have still to consider the existing large holding of Notes which would not be of this character, and the very large holding of silver rupees for which a suitable place has got to be found, and which, as far as I understand these proposals, will still continue to exist.

11,573 Your silver rupees are exchangeable into your Notes?—Into these gold Notes?

11,574 Certainly?—If the silver rupees are exchangeable into the gold Notes, you are then faced with the question of converting the large returns of silver which you receive into gold.

11,575 Exactly?—At a very substantial loss.

11,576 For export?—But the silver rupees are going to be exchangeable for gold Notes. In other words you are not only going to issue further additional currency against gold, but you are going to enable existing rupee currency to demand gold for export, because you say now that which I did not understand before, that the silver rupee is to be convertible into a gold Note. That being the case, your obligations in regard to the size of the requisite gold holding are much greater than I imagined when I first read this paper.

11,577 I will repeat my question again. Future issues of Notes so that in the ordinary course of events your existing issues would, as they come in, be cancelled, until at some period your total issue of Notes would be gold mohur Notes?—May I put this question? You will be having silver tendered to you in exchange for gold Notes?

11,578 Exactly?—The backing for those gold Notes must be gold, but you have only at present recovered silver. Therefore you are under the obligation to convert your silver into gold?

11,579 That is exactly the object—so that we can no longer be faced with that hesitation on the part of any Government authority of refusing to give reverses councils when the exchange position demands it?—As I see it the scheme appears to me to be this. The Finance Department's project contemplated the exchange of gold coins for rupees. Your project contemplates the exchange of gold certificates in effect, for rupees. You would yourself be brought up against all the difficulties which I have gone into in dealing with the Finance Department's scheme in connection with the possible demand on yourself for gold, and also with the difficulties that would attend the sale of large amounts of silver. In fact you would be up against the sort of difficulties which I dealt with in memorandum No 3, because the scheme does not appear to differ in that particular from the Finance Department's project.

11,580 Would it not be possible for you to envisage a position whereby exchange falling to the export point and the Banks desiring to maintain exchange, they should know that with their gold Notes in their tills all they had to do was to take them to the currency office and claim gold for them without having to wait for any notification?—The statement I made at the opening of to-day's meeting made it perfectly clear that the Banks would, on demand, be able to obtain the equivalent gold exchange without any question of notices issued and so on.

11,581 (Chairman) And to an unlimited amount?—And to an unlimited amount.

11,582 (Mr Preston) Then, according to the statement which you made this morning, your idea now is unlimited acceptance of imported gold at par and the unlimited issue of gold for export at par?—No. I said gold at par or, at the option of the Bank an equivalent amount of gold exchange payable in any country outside India approved by the Governor General in Council and maintaining a free gold market. I have all through laid great stress on the fact that the option between paying gold or equivalent gold exchange, must rest with the Bank.

11,583 If the option rested with the Government of giving exchange instead of gold then perhaps your contention might hold good, but I would repeat again, if you say that the option of taking foreign exchange or gold rests with the caller would it not be correct to say that your proposition is the unlimited acceptance of imported gold at par on the one side, and the unlimited issue of gold for export at par on the other side because you say it is at the option of the caller?—No. I say it is at the option of the Central Bank.

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[Continued]

When I said the word "Bank" what is meant is the Central Bank. What I read out were two draft clauses regulating the Central Bank, and whenever "Bank" is mentioned it means the Central Bank.

1154 (Chairman) You have been momentarily at cross purposes.

1155 (Mr Preston) Perhaps it was my fault (To the Witness) That is very excellent, because that rather enlarges the scope of that clause. I would repeat again that what our difficulty has been—and it is well within your own knowledge—is the hesitancy on the part of Government hitherto and the delays. Whenever weaknesses appeared either from political crises or commercial crises, or crises resulting from bad monsoons, we have always been in the position of supplicants. We have had to go and press for a certain policy to be carried out, and my idea of the best means of getting away from that was to have had a Note so framed that we could call for the gold or for the foreign exchange on pre-emption of the Note but this morning you have gone beyond that and you now say we should make it statutory—unlimited acceptance and issue of gold—Yes. I hope the scheme which I suggested this morning meets the point and will get rid of any question of the hesitancy to which you refer as having characterised proceedings in past times.

1156 That improves that clause immensely. Now No 4 "Council Bills shall only be sold to the actual extent of Government requirements"—On that I observed on a previous occasion that all remittances made to this country are for the purposes of the Secretary of State. What I understand the clause to mean is that after drawings to the extent of Government requirements in the broadest sense—that is to say present and prospective on revenue account and on capital account—have been made gold should move to India and should form a backing for an emission of Notes in lieu of sterling securities which under present and past practice have very largely taken the place of gold for that purpose. I pointed out in the initial observations on that point that in so far as this gold was not required for internal purposes there was no particularly apparent advantage in forcing it to move to India with the prospect of having to move it back again in the event of an adverse balance of payments arising at any time and losing interest by holding idle metal in lieu of investments, and in the early discussion with you I said that the position of remitters from India at such times would be absolutely safeguarded by statutory clauses imposing certain obligations on the Central Bank.

1157 Yes and the explanations which you have tendered in answer to questions put to you this morning would also be a part answer to that question. I will pass on to No 6 "Legal tender of rupees not to be disturbed"—I entirely approve of that.

1158 No 7 "As soon as the new parity has been finally decided upon the rupee value of the gold and sterling securities in the paper currency reserve to be written up to the new parity and a sufficient amount of securities from the gold standard reserve to be transferred to the paper currency reserve to wipe out the *ad hoc* securities. Would you give us your opinion on that suggestion?"—When a new parity has been laid down the gold and sterling held by the Government must be revalued in the light of that parity. As regards the question of adjusting your holding of real assets between the two reserves that appears to be in part a bookkeeping matter because your real assets would not in their aggregate be altered. Whether it would be found convenient in practice to blot out altogether the *ad hoc* securities by substituting real assets from the gold standard reserve seems to me to require some reflection. I think the amount of the *ad hoc* securities on the assumption of a 1s 6d exchange would be something like 63 crores. The gold standard reserve is 53 crores so the residue

which you contemplate in this clause would be just 10 crores. But you have got a large silver liability outstanding, and when you get back silver in excess of 10 crores as a return from circulation, the question would arise as to how you were to deal with it. Under a scheme of the kind you assume such silver would not be able to go into the paper currency reserve, because you are contemplating that any future issues of currency should only be against gold. Supposing you had sold sterling securities in London, held on paper currency reserve account, and you had got rupees in India—those rupees would not be able to go into the paper currency reserve to take the place of those sterling securities and you would be in some difficulty. You would probably be forced to recreate your *ad hoc* securities.

1159 After the writing up of the securities we would have a surplus in the gold standard reserve of something like 13 crores of rupees would we not?—Some such figure.

1160 That brings me to the next question "Any balance remaining in the gold standard reserve to be converted gradually into gold and shipped to India." What effect would that have on the contention which you have just mentioned?—If you received rupees back against a redundancy of rupees, what would happen would be that gold would go out. If you got back more than you owe 10 or 13 crores of rupees you would not know where to hold them, because you would have had to have met them by drafts on the sterling assets in the paper currency reserve, which would be *pro tanto* deficient and you would not be able to fill their place with the rupees, because you have debarrated them from the reserve. You would in a case of that kind I think have to recreate your *ad hoc* securities so as to take the place of the sterling withdrawn and the rupees would then presumably be held in the gold standard reserve again. I do not think there would be any advantage in introducing that complication.

1161 *Ad hoc* securities to-day, in the paper currency reserve represent deficiencies which were created owing to certain operations, we may call them, and really in so far as security goes, they amount to nothing more or less than I O U's of the Government of India not even carrying interest. Is not that so?—That is so.

1162 Then would it not be a reasonable suggestion to say, as you do say in Clause 5 "There appear to be strong arguments in support of the view that the gold standard reserve should be maintained as a separate fund?"—Later on you say "It would seem scarcely consistent with his present responsibilities that he should hand over the control of the reserve which must be employed for the support of the exchange, to another authority." Suppose you were transferring a sufficiency of gold to extinguish these worthless securities which under no circumstances can ever be looked upon as a support to exchange, and supposing gold was going into your paper currency reserve, which would become a very strong support to exchange and that the balance of actual gold was being shipped to India, still to form the nucleus of your gold fund should it at any future date be decided upon to issue gold coins what then?—The operation would not have increased the aggregate real assets held by the Government. You would have extinguished some securities which are of no real value as you yourself indicate, but your real assets which are of value would not have been increased. It would be merely an accounting matter how they were exhibited.

1163 So practically what we would be doing by that operation would be still maintaining the strength which we possess to-day in one fund instead of two and by that writing up get rid of what is to-day a worthless asset?—That is so but the real point is that you continue to hold the real assets and if you substitute securities from the gold standard reserve for

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[Continued]

the *ad hoc* securities, you may conceivably find your self in an embarrassing position having to re-arrange your accounts to meet a change in the currency position.

11594 With regard to No 10 you told us some days ago, in reply to a question put by the Chairman I agree with a thoroughly efficient gold standard without degeneration of the rupee but you added and without gold in circulation—Without promoting a gold currency for circulation.

11595 I would now put to you this Clause 10 "Full liability to legally establish a complete gold currency—not before the Fund of £100 million has been accumulated." It might take a period of 10 years or longer. Will you kindly labour us with your views on that point?—In dealing with my memorandum No 3 I went into the preliminary work which is required on the showing of the Indian Finance Department's memoranda with a view to establishing a gold circulation in India. I apprehend that some preliminary operation of the kind of which the Finance Department's memoranda speak will be necessary. The scheme you have been good enough to put before me does not deal with that preparatory work to any extent. I think if you come to consider that preparatory work you will find yourself brought up against the criticisms which have been discussed in connection with memorandum No 3 dealing with the Finance Department's project in India, because you would still have in existence the unlimited legal tender silver circulation and the large amount of silver coin also at present unlimited legal tender in store, and at some stage or other the potential liability involved in that position would have to be tackled.

11596 We have it in evidence in India that, acting on the assumption that council bills were only sold to the full extent of the Government's actual requirements, India could accumulate on a yearly average between five million pounds and ten million pounds of gold annually?—In the currency reserve. That is altogether apart from the social intake.

11597 So that if India were prepared to accept the mass of cost on such propositions would you agree to their doing so?—I do not think that the accumulation of £100,000,000 of gold in the way you suggest, even assuming it to be done without disturbances to which India could not be indifferent, would in itself enable you to carry through the operation because you would have against that £100,000,000 of gold an emission of gold certificates in effect under this project and you have still got to face the point that there is in India a large amount of unlimited legal tender silver currency which at some stage or other may come upon you as a demand and which you have to be prepared to meet. The project that was considered in India in regard to that liability was to draw upon the existing gold or sterling assets for the purpose of wiping it out. You would I think, have to face the same problem under a scheme of this kind and this paper does not indicate how you would deal with that particular problem.

11598 May I pass to No 13 "Having in view the heavy stock of rupees at present in the Currency Office and in addition what is held by the Imperial Bank of India, the Exchange Banks, the Indigenous Banks, the Shroffs and moneylenders in the Bazaars—chetties and others in the outlying districts to the considerable amount in the aggregate which must be continuously held in the custody of the many thousands of industrial concerns operating in India to the equally tens of thousands of shopkeepers and to 90 per cent of the population of India whose daily transactions must of necessity be by means of rupee transactions it is evident that the amount of rupees outstanding in circulation to day—even assuming a liberal figure—is barely sufficient for daily requirements. There is therefore no necessity whatever to contemplate the sale of any portion whatever of Government Stock, which really ought to be

looked upon as a necessary reserve for not far distant requirements. I take it you agree with that?—

Yes, broadly speaking. I think the scheme for selling silver will be found on examination assuming reasonable data for absorption and an appropriate difference between buying and selling price not to offer any sufficient prospect of pecuniary gain to the Government in the long run to justify the operation.

11599 (Mr. Manselji Dadabhai) I would like to take you back to your memorandum No 4. I do not exactly follow your scheme for the creation of a new Reserve Bank which you advocate and which you should take over the banking duties now discharged by the Imperial Bank along with any additional banking and currency function now discharged by Government that may be deemed suitable for transfer to the bank. I gather that you would, if this new Reserve Bank is created, allow it and the Imperial Bank of India to continue as separate entities?—My idea is that they should be two banks under different directions.

11600 As separate entities?—Yes.

11601 Governed by one statute, or by two different statutes?—The Central Bank would have its own independent statute. The Imperial Bank's present statute would have to be re-examined and would no longer be suitable if it became a commercial bank pure and simple. The present limitations on its functions would require to be considered, because it is clear that if it is converted into a genuine commercial bank pure and simple some of the limitations on its present business would no longer be required to be maintained.

11602 You would have Government representation on both banks?—No. I should contemplate that the Government's representation would be concerned with the Central Bank and that the Commercial Bank should be subject to the general banking law of India which I should hope would be sufficient for the purpose.

11603 And this Reserve Bank will hold Government balances?—They would be deposited with the Reserve Bank, which would make appropriate use of them.

11604 This Reserve Bank will have the power of Note issue?—That is contemplated. That is an essential part of the scheme—that it should be a bank of issue.

11605 Will this Note issue be done in the name of the Reserve Bank, or on behalf of the Government of India?—It should be in the name of the Reserve Bank. You will understand as I stated at the outset of Memorandum 4, that that is based on the view that the Commission are satisfied from the evidence taken in India that no untoward consequences are to be expected from the replacement of a Government Note by a bank note.

11606 Then this Reserve Bank will not be acting as agent of the Government of India in any circumstances? Only in so far as it is employed as the agent of the Government of India to hold the Government balance and to carry out on behalf of the Government certain other duties some of which are now discharged by the present Imperial Bank such as the management of debt and other things of that sort which are entrusted by Governments habitually to banks. The bank will act as the agent of the Government in those sort of matters.

11607 Would you hand over all the reserves to this Reserve Bank?—The reserves would both be handed over to the Reserve Bank for administration. The reserve against the Note issue and the reserve against the silver rupee might be held separately but they would both have to be dealt with in the statutory provisions regulating the constitution of the Bank.

11608 Let us consider how this Note issue question would affect public confidence. Do you think if this Reserve Bank is permitted the power of issuing Notes its issue will carry the same amount of confidence as the Government of India Note issue?—I

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[Continued]

feel that the authorities, whom the Commission must have consulted in India, can give you better guidance on that subject than I can. Speaking from such knowledge as I have of Indian affairs, I should hope that if it was known that the Reserve Bank was such as to have been entrusted by Government with its balance and with other responsibilities, the public would have confidence in the promise to pay of that bank.

11 602 You have been connected with the Secretary of State for many years in various capacities, and you also know this chequered history the note issue has gone through in India, and how it was the war emergency that brought it into more prominence and gradually made it more popular. The notes were not regarded from the same favourable standpoint before the war as they now are. If you give this power of issuing notes to a new agency altogether bearing in mind the fact that the Indian public is accustomed to look upon the Government of India as the traditional agency for the purpose of issuing notes is it not likely that you will be incurring serious risk, by going in for a measure of this kind?—These are most important considerations which have to be remembered, but one must realise that it often is emergencies such as the kind that you have referred to that in the end do promote good banking habits. I believe it is the case that in France deposit banking received an enormous impetus from the events that happened after the Franco-Prussian war, which induced the peasants of France to bring their savings to the banks. I do not regard the fact that the development of the note issue has taken place only recently and in circumstances such as you indicate as being any ground for apprehending that there will be a setback in the note issue provided that the people of India are given evidence that the note issue is under statutory control and is in the hands of the authority in which the Government itself has placed the greatest possible confidence, and has shown the greatest possible confidence by depositing its own balance.

11 610 I put it in this way. The Imperial Bank of India has been in existence for the last five years, and so far has done well. There has been no conflict between the Government of India and the Imperial Bank of India on the matter of its general policy. The two apprehensions (a) and (b) which you have mentioned in paragraph 2 have also been secured. It also should be borne in mind at this stage that a genuine central bank of the character which you have delineated is not a possibility in India for many years to come. Is there any objection to the note issue being left to the Imperial Bank of India as it is at present constituted, either as agents of the Government or by giving the Imperial Bank full power to issue its notes?—The efficiency of banking throughout the great continent of India seems to me to depend in the last resort upon the creation of a strong central banking institution which would hold the ultimate banking reserves of the country. My view is that it is desirable that a bank vested with the responsibility of holding the ultimate banking reserve of the country should not be itself a bank engaged in the business of ordinary commercial banking which in some respects may involve risks unsuitable for a Central Reserve bank. It is most desirable now that an opportunity has come for going into this question to give India the best and most approved system in the light of modern experience. Point (a) to which you refer in my paragraph 2 has not of course at present come into practical evidence, because the responsibility for currency management in the country has hitherto rested with the Government which is a body detached from commercial banking. I think therefore that one wants to preserve that detachment if one is going to hand over active responsibility for currency control in India to a bank—in other words that the bank should be itself detached, as far as may be from the ordinary operations associated with commercial banking.

11 611 Quite so, but apart from this question of currency (of course the currency has not been handed over to the Imperial Bank) has there been any serious complaint by any other bank that the Imperial Bank of India has carried on its trade work in derogation of the interests of any other banks in India?—Not that I am aware of, but you will realise that the position might be different if further wider responsibilities and privileges were to be given to a Bank which is a commercial bank. You realise a new factor would be introduced into the case if wider responsibilities and privileges in regard to the note issue were conferred upon what is very largely an ordinary commercial bank. At present these privileges and responsibilities have not been so conferred, but the attitude of other banks to which you refer might be affected by the fact that a change in the nature of the responsibilities and privileges of the Imperial Bank was in question.

11 612 In answer to Sir Purnohandias Thakurdas you stated that the Government of India as a big depositor has a right of controlling its deposits and regulating general policy in these matters. Does not the present agreement with the Imperial Bank of India provide for all these necessary safeguards?—Under present conditions the Government is complete master of its own deposits.

11 613 Am I also to gather that throughout your scheme you wish to keep the Secretary of State for India supreme in the matter of directing the financial policy?—I have suggested that as regards his own deposits with the bank he should not be placed under conditions more adverse than apply to other large depositors with the bank. As regards general policy my idea would be that if a genuine central bank is created provision should be made for his keeping in close touch with the bank and knowing what is going on, but that the active direction and control of policy should rest with the bank, subject to the Government's holding a watching interest in the policy so carried out.

11 614 I see your point, but can you enlighten the Commission as to any other country in the world with a central bank where the Government keeps powers of control or interference in the matter?—In the case of the bank of France—Sir Henry will correct me if I make a mis-statement of fact—the Governor and the Deputy Governor are appointed by the Government and are in constant touch with the Government. The higher policy in finance as carried out by that bank in ordinary times has been based upon the action and direction in the main of the Governor and the Deputy Governors who are closely tied to the State. I believe also that in the case of the Federal Reserve Board which supervises the operation of the Federal Reserve banks the Secretary of the Treasury is an *ex officio* member and a very important member in practice, of the Federal Reserve Board. Those are two instances.

11 615 I quite realise that point that the appointments should be subject to Government control, and they should have the sanction of the Government, but in paragraph 3 you state something more than that. You say "It is necessary to ensure that the Government should have an effective voice in regard to the higher financial policy of the bank though the management of its day-to-day business would continue to rest with the bank's officers." You are speaking of "an effective voice." That means something more than the mere obtaining of sanction for the appointment of the Governor and Deputy Governors?—Yes, but you will realise that that clause from which you are quoting is subject to the previous clause which deals with the discharge of an additional responsibility by the Imperial Bank without any material change in its present constitution. In our questions now we are not dealing with this position but with the alternative which is referred to in the previous portion of this memorandum on the creation of a genuine central bank and I have all through tried to make

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[Continued]

it clear that my attitude on the subject of the Government's intervention in regard to the conduct of central banking functions by a commercial bank, must be different in its general character from the attitude of Government to the conduct of central banking business by an exclusively central bank. I cannot lay too much stress on that. It is a point which I brought out in my examination by the Chairman, and I would like to take this opportunity of reasserting it.

11,616 With the constitution of the Central Bank would you still insist on the ultimate responsibility for the maintenance of the exchange being left to the Secretary of State?—I have suggested that a statute on the lines that we discussed before should define the responsibilities of the central bank in regard to the maintenance of exchange, which responsibilities if carried out on the lines indicated, would absolutely ensure the gold value of the rupee. In that way you will see that the Indian Legislature which would have passed the Act concerned would have taken the responsibility for the general line of policy imposed upon the Central Bank. It should be for the Central Bank in the day-to-day conduct of the Indian money market to ensure that the responsibilities vested in it by the statute of the Indian Legislature were properly carried out. I have said that I think it is important in the case of India, particularly where a sort of break of gauge is contemplated to keep the Government associated with the Central Bank, as in the case with the Federal Reserve Board of the United States, and as in the case with other central banks though the method of keeping control differs in different cases. I think for the same reasons that you yourself have given namely the attitude of the people of India and the commercial community in India towards the Government, additional confidence would be felt in India if the reason is explicitly recognised.

11,617 Will you confine this maintenance of the additional responsibility in the matter of exchange to Government remittances, or also to remittances for trading purposes?—As regards the remittances for Government, for its own purposes, the Government would be in the position of any other large depositor with funds at the bank. In other words it would be master of its own funds. It would be able to express to the bank its desires regarding the translation of rupee funds into sterling funds as might be required from time to time to suit its purposes. But it is obvious in carrying out its policy in regard to these funds it would be working with the guidance of, and under the influence of its expert finance advisers, that is to say, the direction of the Central Bank.

11,618 (Chairman) If possible, let us keep the evidence to a single subject at a time.

11,619 (Sir Henry Strakosch) You just dealt, in reply to the questions of Sir Maneckji Dadabhai with the question of the Government association and control in the affairs of a real central bank. Am I right in saying that your view is that the association should only take the form of the Government appointing the Governor and Deputy Governor, and having some minority representation on its Board, and that you rule out the limitation suggested in your memorandum as regards a finance officer being represented on the Board who has a right of suspensory veto, and I do you also rule out the provision in the present Imperial Bank charter (I believe it is Clause 10 (2)), empowering the Government to issue instructions if the policy of the bank does not appear to the Government to be the right policy?

11,620 (Chairman) Before Mr Kisch replies I might remind him of his answer to a similar question on the third day when I was examining him. I said "Supposing a true reserve bank were to be founded would you still think it necessary to continue the suspensory veto of Government directors and the

power of the Government to issue instruction as regards the note issue?" and the reply was "In such a case I should regard it as right to entrust the bank with a much wider degree of responsibility. As I said on the last occasion, I consider that in any event, in the circumstances of India, close association between the bank and the Government would be necessary, but I should hope that in such a situation the bank would do the work and the Government would be able to look on with tacit approval. If, on the other hand, the bank were to do something which the Government consider contrary to the supreme financial interests of India which might jeopardise the exchange or the security of its balances, I consider it would be desirable that the Government should have some right of intervention. I apprehend that in practice it would practically never have to exercise its right."

11,621 (Sir Henry Strakosch) It is on that very point I should like to have Mr Kisch's view because I think he has somewhat changed his mind on the subject since he made that statement to the Commission?—Broadly speaking, that represents my view. I do feel that in the case of India one must provide for close association, and I think that in the case of India one of the representatives appointed to the Board of the bank would in practice be a high financial officer of the Government, capable of making the views of the Government felt, and who would report to the Government on any matter which he thought worthy of very serious notice. It is a difficult question to know whether the statutes of the bank should give the right to the Government representative to suspend action pending reference to the Government, or whether it should give him a right of conveying positive directions from the Government. I deride one's attitude on that point could not necessarily be the same now when you are starting a bank as it would be after you had ten years' experience of the working of the bank. I want the bank to start with the feeling that it has got the maximum confidence of the Indian public behind it. If the view was held that that confidence would be increased by giving in so many terms a right of suspensory veto to the Government representative, I think that, in spite of the fact that it would be rather an unusual provision, it might be worth having for a period of ten years. If we found after a period of ten years that that particular provision was in practice unnecessary, and that confidence in the bank had been absolutely established that is a clause which then might disappear. I should feel very much guided in that kind of thing by what people with knowledge of the Indian public tell me as to the way in which they would look at such a bank. If they would look at it in an entirely different way if there was a Government official with a suspensory veto, then I should accept it. If on the other hand they tell me that if a Government representative is present they would have full confidence in it, knowing that the bank will always in practice conform to any strong wish expressed by him without any formal suspensory veto, then I should say it would not be worth while to insist upon such a provision. I do not know whether my opinion on that point is of any particular help to you, Sir Henry.

11,622 Well, it is certainly a help, but I am afraid it runs counter to the very definite view generally held that banks, and especially banks of issue, should be free from all Government control. As far as I am aware, there is no bank charter in existence which gives the Government the right of such a suspensory veto?—No.

11,623 I was very anxious to hear your views about it. The Brussels and Genoa Conferences have definitely, and in identical terms, laid down the proposition?—The Brussels and Genoa Conferences were held under the influence of circumstances in which Governments driven to desperation had grossly abused the principle of the note issue. I can



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[Continued]

quite understand, and absolutely agree with the proposition as a general case. But in dealing with India we have to realise that we are dealing with a country where banking progress is comparatively recent, and where the people have been habituated for very long periods to look to the Government with a degree of confidence which is probably not vouchsafed to Governments anywhere else. I think there is a difference in the case of India from other countries from that point of view.

11,624 I am supposing that a true central bank is set up whose charter provides very definite limitations as far as the character of its business is concerned, and of course, so far as the right of note issue is concerned. To test the utility of such a suspensory veto or interference by the Government, in what circumstances would you regard it as necessary for the Government to interfere in this manner? What are the conceivable circumstances in which the Government would do it?—The kind of circumstance would be when a question might arise as to stiffening the rate of discount in India, or contracting circulation. It is conceivable (I do not think it is likely) that there might be a difference of view as to what a particular situation desiderates. It would be difficult to say which party would be right, but it is conceivable that there might be such a difference of opinion, as there have been differences of opinion in this country, regarding the policy of a central bank on the part of important members of the public at different times.

11,625. Under a properly constituted central bank the movement of reserve funds in the money department is surely a very clear indication whether contraction or expansion is advisable. Where does the Government's superior knowledge come in?—The Government would not have any superior knowledge. It would be largely a question of creating confidence. I have looked at it from the point of view of creating confidence and lending support to a particular policy. The fact that they are thoroughly identified with the bank would presumably act as a protection to the bank against adverse criticism out side and would strengthen its independence. That is the position. It is a question whether the independence of the bank *vis-à-vis* outside parties would be strengthened by the close association of Government in this way, or whether it would be weakened. I think in the circumstances of India there is some ground for holding that the confidence of the public might be increased and the independence of the bank might be strengthened. You will realise that the position of the Indian Government is different from that of the ordinary political government with which we are familiar in Europe generally.

11,626 You put it on the score of confidence. Would you feel more confidence in a motor where you have one driver in complete control of the accelerator, brake and clutch or where you had two people in control one of whom would have the power to put out of action at any moment your accelerator, your brake or clutch?—Well of course there is only one answer to that question but the real point is whether the analogy holds because there would not be two people working the machine. The machine would only be worked by one authority. The only question is whether a right decision is more likely to be arrived at with two heads thinking the thing out than with one. I don't think it very largely on the score of confidence. I feel sure that people who have more first-hand knowledge of Indian conditions than I have would be able to advise you. I can only give you my impression having regard to the general attitude of Indian opinion to Government.

11,627 I would also like to know in what way the association of the Secretary of State with the Advisory Committee of the Central Bank in London could be helpful in avoiding wide fluctuations in the purchasing power of gold which are really the

functions of co-operation amongst central banks.—The point that I had in my mind was this. In the regulation of exchange between India and this country as we have seen it working in the past when we have had a fixed upper gold point at which drafts on India were sold without limit questions have arisen of movements of gold to India to a greater or less extent. The extent of those movements of gold from this country to India is influenced by the policy of the bank in regard to the sale of rupee exchange. It is conceivable a situation might arise—I think Mr Preston referred to this in his memorandum where there might be an alternative open to the bank of selling rupee exchange to a greater or less extent thus decreasing or increasing the actual movements of gold. That seems to me to be a question where the views of the Central Bank in a great gold centre like London would be very vital to a proper handling of the matter from the point of view of the interests of India and other countries. I am only suggesting that in a case of that sort the views of India on the point might be put, as far as they were of value and importance, to the Central Bank here with authority by the natural spokesmen of the Government. That would be one case. Another case which I had in mind would be this. Take for example the holding of the large gold reserve fund of 50 crores or so invested in this country, which at present is the property of the people of India. I think it is right in a matter of that sort where the investment has to take place on this side that the authorities here charged with the supreme interests of India should note what is going on and keep in close touch with what is happening as is the case at the present moment, in regard to the investment of these large funds in regard to which of course the Secretary of State has the advantage of expert financiers not officials only to help him.

11,628 In other words, you would not be satisfied with an obligation put upon the bank to buy and sell gold or gold exchange at fixed points?—That is an absolute obligation. They would also be selling rupee exchange in the ordinary course of their business. I suppose, much in the same way as rupee exchange has been sold in the past. Gold could always go.

11,629 Within two gold points?—Quite so.

11,630 To maintain the purchasing power of the native currency in terms of gold?—Yes.

11,631 There are one or two questions I should like to ask you in regard to your proposition of retaining the present system of a paper currency reserve and a gold standard reserve. I suppose you will agree that any currency system should be comprehensible to the ordinary public?—That is a very important consideration.

11,632 And therefore the function of these two reserves would have to be closely defined in the bank charter?—That is so.

11,633 Would you describe the function of the one and the other? Let us take the paper currency reserve first and then the gold standard reserve.—The paper currency clauses would have to deal with the fiduciary issue, its limitation in amount and its form of backing. It also would have to deal with the requisite provisions for ensuring the internal convertibility of the notes into the rupee assuming that that continues in the future as it has done in the past to be an essential factor of the paper currency reserve. Provisions dealing with the gold standard reserve would have to lay down the general range of security which is admissible as a holding of that reserve and would have to impose upon the authority charged with its administration an obligation of maintaining its corpus under the varying influences which may affect the form of holding at different times.

11,634 You have not quite answered my question as to the purpose of these two reserves. Do I understand you to say that the paper currency reserve is merely to ensure internal convertibility of the notes into rupees and the gold standard reserve is merely

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[Continued]

to maintain the external value of the rupee?—I do not say that those are the two functions, and that the two functions can be separated in that way. I have only indicated that the function of the paper currency reserve at present differs from the function of the gold standard reserve as it is at present. The employment of the paper currency reserve by the Central Bank would be influenced by their policy in regard to the cardinal duty of maintaining the exchange at the fixed level, that is, between the gold points.

11,635 And the paper currency reserve?—Their function of controlling the size of note issue from time to time would have to be carried out with regard to their responsibility for maintaining the gold exchange value of the currency.

11,636 Of the currency or of the notes?—In practice it would be effected by the contraction of note issue.

11,637 Or contraction of the rupee issue. Can you control which kind of tokens money you are going to contract?—No. You are getting returns, of course, in the two forms.

11,638 Exactly.—And the functions must overlap. The question, as I understand it, between us as whether you should have one account which included the gold standard reserve on both sides, or whether you should have a note issue account such as we are familiar with in the case of the other note issuing banks, and a second account which would be on the one side gold standard or sterling assets, as it is at present, and on the other side corresponding liability, which I suggest might be in the form of Government deposits equivalent in amount to gold reserve assets. The position would be that there had been in theory a deposit of Government funds aggregating 53 or 50 crores, as the case might be, and on the other side there would be an exhibition of securities representing assets held against that liability. So it is really a question of whether those two should be aggregated into one account, or whether they should be in two separate accounts. The use of them would overlap, and the bank would have to decide as circumstances might be, as to whether it exhibited a contraction of the circulation within the one or within the other. The aggregate effect on the circulation would be the same in either case.

11,639 I want to be convinced that the functions of the two reserves are so different that it is necessary to keep two reserves, because, as you are aware and as Sir Macleay has mentioned, we do not know of any central note issuing bank that does keep two reserves. You might equally say that in France a system might be adopted under which two reserves are kept, and for that reason I wanted to know from you what the functions of the two reserves are. As I understand it, you say that the paper currency reserve is there, first of all, to assure the convertibility of the notes into the other token, the rupee, and also to maintain the external value of the note and the rupee?—That is a function which its use and its proper employment bring about.

11,640 If I understand you rightly, the gold standard reserve is there to assure the external value of the note and the rupee coin because, as you admitted, you cannot control to what extent rupee notes or rupee coins would be tendered for foreign remittances?—That is so.

11,641 Is there, then, any very great distinction between the functions of these two reserves? I do not think there is any great distinction between the functions of the reserves but there is a distinction between the two liabilities because the note is the liability of the bank which has issued it and the rupee which bears the King's head and is a coin issued by the Government carries the liability of the Government. I do not know whether this other point has any bearing on the case but if you maintain the two reserves separately it could be provided

that the profits on the assets held in the gold standard reserve should accrue to their entirety to the Government. That could be provided for.

11,642 That is a very subsidiary point?—It is a subsidiary point. It is a point which just happens to have crossed my mind, and I just mention it. Those profits might of course go into the general fund of which the Government would get its share in the distribution of the aggregate profits of the bank at the end. That is only quite a subsidiary point, but I mention it. There is a difference between the silver note obligation of the Government and the paper note obligation of the bank.

11,643 I do not see how such a distinction can be made, because under the charter contemplated the bank is obliged to buy and sell gold exchanges at fixed points against the tender of legal tender money?—Yes.

11,644 Therefore you cannot, in my view, separate the two functions. It is the function of the bank to maintain the external value of the rupee coin as well as the note?—That is so. I see a very close resemblance between the functions of the two. I have only suggested there is a distinction between the two, but I do not say that it is a decisive factor. It is only an aspect of the case, and I can quite see that a case, and a strong case, can be made out for adding the two up in one account. I have only endeavoured to put some of the points in which there does appear to me to be a distinction between the silver rupee issued by the Government as unlimited legal tender and bearing the mark of the Government, and the note issued by the bank and bearing the proof of the bank's issue on its face. There seems to me something rather unusual in adding two things together which carry the ultimate responsibility of different authorities.

11,645 But then I think you have just agreed that it is not the responsibility of the Government to maintain the external value of the rupee coin. Let me put it in this way. Let us suppose you had two reserves, and, as you have suggested, let the paper currency reserve be first drawn upon to maintain the external value of the rupee note or coin and by that process the whole of the gold securities laid in the paper currency reserve were exhausted, then would you not consider that the note holding public would be very greatly disturbed if they found that the paper currency reserve, the reserves primarily serving to assure the value of the note, has been completely depleted of gold and gold securities? Would not that conceivably lead to a run on the bank and the return of the notes?—The public would be in the rather extreme case which you have sketched that the bank still possessed gold or sterling assets representing the holding in the second reserve. Therefore, in either case they would see that in the aggregate the gold and sterling assets held by the bank would be identical. Any such extreme case on the present basis would postulate the disappearance of something like 65 crores of gold or sterling held in the paper currency reserve, and there would be still held 50 crores of such assets in the bank's accounts.

11,646 Say half the reserves have gone—it does not matter what amount you take?—They would see that the bank was discharging its obligations in the sense of carrying out the liability imposed upon it by statute of giving gold or gold exchange equivalent against the tender of local legal tender money. If such a situation did arise there would be nothing to prevent the bank exhibiting a portion of that contraction as the other reserve because I am not proposing to make it obligatory to use one reserve absolutely continuously to the full until its gold or sterling assets are exhausted before having recourse to the other. There would be some discretion to the Central Bank authorities charged with this responsibility of carrying on the requisite contraction and they would in the kind of circumstances that you sketch out, always have open to them the possibility of exhibiting

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(Continued)

some of that contraction in the gold standard reserve which would then, instead of holding 20 crores of gold or sterling assets, hold a smaller amount of gold or sterling assets plus a quantum of returned rupees.

11,617 You think that is easily intelligible to the public, to shift about drawing upon one reserve and another reserve indiscriminately at the sweet will of the Bank Board?—The aggregate result is the same in either case. As I say, this is a question in the main of the exhibition of a series of transactions. I can see the force of the contention that the two might be amalgamated, but I have only tried to show that there are certain factors which may have some influence in the other direction. I fully appreciate that the question is one which is open to argument, and possibly one where different views may legitimately be held.

11,618 (Chairman) I do not think there is any discrepancy, but it might be convenient to Mr. Kach to turn back to the answers given on a similar point to Sir Reginald Munt, on page 42?—I should be very glad.

11,619 (Chairman) I do not say there is any discrepancy, but this is what Sir Reginald Munt said: "If you made over both reserves to the Bank, but kept them, as at present, as separate reserves, on which reserve would the liability for securing external convertibility rest in the first instance? Would you first apply the currency reserve to meeting the demands for external exchange and only fall back on the gold standard reserve when the sterling resources of the currency reserve were exhausted?" (I) I think that is the way I should look at it, speaking generally. I should rely on the contraction effected through the currency note reserve as being the appropriate method of dealing with the question of a redundancy of local currency.—(Q) The gold standard reserve would remain intact as long as there were sterling resources in the currency reserve?—(I) Broadly speaking I think that is so. I do not know whether if you had a prolonged strain on the resources the question would in any way come up of utilising the one or the other. As far as I can see at present, it would not have any particular significance in that sort of situation as to which reserve you worked with, or whether you divided it between the two. In either case you would be capable of effecting the desiderated contraction and in either case your aggregate gold assets would remain the same. "There are the questions and answers on the point?"—I think they generally harmonise with what I have said, with this qualification that this morning the possibility of absolutely exhausting the sterling assets in the paper currency reserve which I suppose, includes for this purpose the gold assets in the reserve, is definitely put before me. If that somewhat remote and extreme possibility came about I think, as I said in these answers, it would be open to the central banking authorities to exhibit a certain portion of the transactions in the other reserve. The net effect on currency contraction would be identical, and as regards your holding of real assets, gold or gold securities, your position would be the same in either event. It would be a question of their exhibition. In fact, really in the main as far as I can see it, this is a question of the exhibition of the transactions, and not so much a question of real significance as regards the soundness of an Indian gold standard. That is so is not it?

11,620 (Sir Henry Strakosch) Yes. You mentioned a little earlier to-day that you submitted to us a draft of those clauses of the charter that dealt with the obligation on the part of the issuing authority or bank to buy and sell gold and gold exchanges at fixed prices. But you did not tell us whether you contemplated that the bank should buy and sell at the one price or at prices with a margin such as, for instance, the Bank of England at the present moment makes. The Bank of England is

under a statutory obligation to sell at 77s. 10½d and to buy at 77s. 9½d. Did you contemplate that the obligation of the central bank to buy and sell the gold should be at one fixed price, or at a lower buying and a higher selling price?—The Bank of England's obligation to buy at 77s. 9½d and sell at 77s. 10½d, I think I am right in saying, represents a survival of a situation which, to some extent, has passed away. The original 77s. 9½d represented an allowance for interest during a hypothetical period in which the bullion tendered to the bank was being converted into gold coin. That difference, I believe I am right in saying, represented in essence an interest charge, but at present there is no proper application of an interest charge because the tenderer of gold in this country cannot get gold coin. Is not that so?

11,621 I think that is so?—But in this draft that I wrote out to-day I had the word X grains of fine gold in both clauses, X grains being the figure taken for the parity of the rupee as may be subsequently laid down by the Commission. I did say in my second clause that it should be (that is in answer to your question) gold at par, or, at the option of the bank, an equivalent amount of gold exchange less allowance for charges payable in a country outside India, approved by the Governor General in Council, containing a free gold market. So that my answer to the question is that the option resting with the Central Bank would, under this draft form be gold at par, or at its option, equivalent gold exchange less an allowance for charges in the gold centre concerned.

11,622 But in practice having regard to the great demand of India for purposes other than money for gold, might not that lead to dissatisfaction on the part of people when they see in the bank charter an obligation upon the bank to sell gold, and then in each case the option is exercised, as it no doubt would be, to give gold exchange instead of gold?—The purpose of the clause in the charter is absolutely to anchor the rupee to gold, and it achieves that object. That is the purpose of the clause. If it does not achieve it satisfactorily then I cannot have drafted it correctly, but that was the prime object that I had in view. The demand of India for gold for social purposes would continue to be met by the ordinary channels, but in practice the bank itself would not be under an obligation under any conditions to issue gold for internal purposes, because we are here concerned with a standard which will absolutely guarantee the gold value of the rupee.

11,623 Would not the same effect be achieved by making it an obligation for the bank to buy and sell gold at prices which will enable the bank to replace any gold drawn from it, or any gold coming in by shipping it to the gold centre to be selected, where you can always get gold by statute in exchange for currency?—Yes.

11,624 The effect would be exactly the same?—That is a very interesting alternative which one wants to consider. In that case there would be a substantial spread between the bank's buying and selling price.

11,625 Certainly?—Well, now I wonder how that would appeal to the public in India as an alternative to this scheme.

11,626 It is so different from your scheme?—Except in so far as my scheme goes, it contemplates only one price, but there is an option with the bank of gold exchange. The scheme now suggested, I take it, would remove the option of equivalent gold exchange and impose, in effect, an obligation to sell gold on terms which would, in effect, quote the rupee at a discount as compared with the true par. Is that so?

11,627 That is so?—Then I am wondering really how the conception of selling gold on terms which quote the rupee at a discount would satisfy opinion.

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[Continued]

The alternative that I have given, I hope, would convince the public that the gold parity of the rupee was secured, and it does not introduce the conception of selling gold on terms which may be represented as putting the rupee at a discount.

11,653 The conception may be all right but in practice as the bank or issuing authority would have the option of giving gold exchange, it would in practice nearly always give gold exchange. It could not afford to give gold at one price if it had to replenish its store at another?—In practice that would be the case. Either scheme would presumably have the effect of anchoring the rupee effectively to gold. Either scheme would do that, so it is a question of the terms in which the obligation should be undertaken. I was trying to put to myself how that would function. We are anxious to bring out in the clearest possible way that the rupee is absolutely anchored to gold at a fixed parity. It does occur to me that there might be two criticisms from the point of view of the public, and one criticism from the point of view of the Central Bank authorities. The public might say "You have introduced into this scheme the conception of an actual sale of gold involving a discount on the rupee." I do not know what the figure would be, whether it would be 2 per cent below the buying price or something of that sort. They might say "This seems to be a somewhat unusual provision with which we are not familiar elsewhere, and it does not seem to us to be quite in keeping with an absolute anchoring of the rupee to a gold par." Moreover, might not they say that in pre-war times the Government did make a habit of issuing gold to the public if Government had it, and could do so without inconvenience, that in those days the issues were at par, and that so far as the element of discount was introduced the scheme, though undertaking an obligation to sell gold on terms, was not so good as what they had before when gold was issued at par? Those would be two possible criticisms which I think might be put forward by the public. The other point which I think requires looking into, on the basis of figures which I have not got because I have not yet had an opportunity of working out this scheme before, is that in certain conditions of exchange the central bank would be the purveyor of gold to the bazaar. That situation would appear to arise at some point, either when the exchange was at exact parity, or fractionally below parity, when a person would find it more economical to get his gold for social purposes from the Central Bank than to import it from outside. In such conditions might you not be faced with a very large demand for bullion for social purposes which it might be inconvenient to the Central Bank authorities to meet, and which they would be called upon to meet at a time when they were either rising, or threatened with the likelihood

of having to use their gold assets for the purpose of maintaining the external value of the rupee? It seems to me that these demands would come upon you at the same time. If that is the case would not the central banking authority have to fortify itself by a large gold holding, because the obligation to meet that demand would be an absolute obligation? Though it is true there would be time for replenishing and so on, yet they would have to be ready to meet applications on demand. It seems to me that the central banking authorities, under certain conditions, might find the obligation an embarrassing one?—I should require to look into the figures before giving a considered answer on this question.

11,659 The same situation would arise if the exchange fell to below gold point and you gave exchange. The bank, in that case, would also have to see that its reserves are replenished by an appropriate discount policy?—In that case you would be using your reserves for the maintenance of the external value of the rupee but you would not be open to demands from the bazaar for large volumes of gold on demand for social purposes. In this matter one has to remember that the social demands for gold may be strong at a time when the exchange may be weak, because a social demand is a demand which arises from the bazaars and the needs of the people.

11,660 But does not exactly the same thing happen under your scheme? Supposing the exchange goes to the lower gold point, and there is a very insistent demand in India for gold for social purposes. The advantage to the bullion dealer then is that he can go to the bank and get his gold immediately, whereas by buying exchange he will have to go to London and ship his gold across, unless the issuing authority exercises its option, and refuses to give gold which would, I suppose, be disturbing to the confidence of the people?—Well, the obligation on the issuing authority in the discharge of its duty would be to supply gold equivalent at the gold centre. Under the other scheme there would be the actual obligation on the part of the Central Banking authority to produce physical gold over the counter on demand for consumption internally. Under this scheme the bazaar demand would not be focussed upon the Central Bank immediately in the form of a demand for physical gold over the counter. It would be focussed upon the Central Bank in demand for gold exchange which the purchaser would have to take, getting gold from the gold centre from which he was acquiring his gold and then shipping the gold to India. There would not be a positive immediate demand for gold over the counter under this scheme. As far as I can see, that is an important difference between the two schemes.

11,661 If the bank exercises its option not to give gold?—If the bank exercises its option not to give gold. That seems to me to be the difference between the two schemes.

(The witness withdrew.)

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Mr CHIEF H. KIRCH, C.B.

(Continued)

## THIRTY-FOURTH DAY.

Friday, March 12th, 1926.

## PRESENT:

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (Chairman)

SIR HAJENDRANATH MOOKERJEE, K.C.I.F., K.C.V.O.

SIR NORCOT HASTINGS YERLES WARREN, K.C.I.F.

SIR REGINALD MANT K.C.I.F., C.S.I.

SIR MANEKJI BHARAMJI DADABHAI, K.C.I.F.

SIR HENRY STRAUCH, K.B.E.

SIR ALEXANDER ROBERTSON MURRAY, C.B.E.

SIR PURSHOTAMJI THAKURDAS, C.I.E., M.B.E., M.L.A.

Professor JAHANGIR COOPERJEE COYAJEE  
MR WILLIAM EDWARD PARSONS.Mr G. H. BAXTER } (Secretaries)  
Mr. A. AYANGAR }

Mr CHIEF H. KIRCH, C.B., recalled and further examined

11,602 (Chairman) Since the last occasion we have had the advantage of seeing your suggested draft\* of lines on which a gold standard may be embodied in statutory form for India, and we have also had from you a very full statement of those figures for which we asked you last time. I hope these are the figures which are wanted by the Commission.

11,603 Perhaps some members of the Commission will have some questions to ask on those figures. I may say that they have been prepared by the Accountant-General Department under conditions of unusual pressure, and they have not been subjected to the checking which is usual in these matters, but I have no reason to doubt their absolute accuracy.

11,604 (Chairman) It was a very prompt undertaking of rather a large task. I do not know whether any member of the Commission might like to ask you questions on the figures now.

11,605 (Sir Purshotamji Thakurdas) You say in paragraph 4 of your memorandum No 4 "There are strong objections to attempting to tie up the Secretary of State by an advance monthly programme or anything of the kind," and then you go on to say "The action to be taken in regard to remittance of Government balances from India to England cannot be forecast with any accuracy for any length of time ahead." These statements which you have supplied show that the net expenditure which is charged to revenue is under £30,000,000. In 1922-23 the actuals were just over £30,000,000. In the next year they were £29,500,000 and in the current year there is a drop to just about £27,000,000 as estimated. In these years the figures range from approximately £27,000,000 to £30,000,000.

11,606 In 1922-23 the net expenditure actuals, is £30,000,000 is it not?—And the following year, £29,500,000 and the next year £27,000,000.

11,607 Then I see the item "Capital expenditure not charged to revenue," railways, Bombay Development Scheme, etc. You deduct that from the "Net expenditure" do you not?—No. That has to be added for the purpose of computing the total outlay.

11,608 I see.—That first figure means what would have been denoted by the old popular term "the Home Charges," that is to say the revenue charges. The other is charge against capital defrayed in London.

11,609 Do these figures of the actuals show any material variation from the Budget estimates?—In the aggregate they are apt to show a substantial variation, taking the revenue and the capital charges together. The principal reason is, if you look for example at the years 1922-23 or 1923-24, that there was a very big drop in that year in what was actually spent in this country on railways from what was budgeted. That was due to delay in delivery by contractors and that sort of thing.

11,610 There is not much variation in the revenue expenditure is there?—The revenue expenditure is capable of much closer assessment, though in 1921-25 there appears to have been a drop of £3,000,000 in the revenue expenditure.

11,611 Therefore no estimate that was indicated at Budget time has gone against the Secretary of State in years referred to in your statement. If anything the budget estimate gave him more funds rather than less?—In so far as the revenue expenditure goes, yes. 11,612 Regarding the capital expenditure, the Government of India when they undertook such expenditure knew exactly how much would be required?—We should like to give the best estimate we could, and it is the habit of Accountants-General, who draw up estimates, to do so in a way which provides for safety and avoids risks. So it is not unnatural that the actuals should show expenditure less than has been budgeted for.

11,613 Therefore if there is any variation there is no reason to suppose that it would be in a direction unfavourable to the Secretary of State?—The opposite cannot be excluded. For instance, in the case of the present year, quite late in the year the Government of India and the Secretary of State resolved to buy the company's interest in the Delhi-Delhal-Kalka Railway, involving an expenditure of £3,000,000 on 1st April. New and unforeseen charges may occur within a current year.

11,614 But when they did that they no doubt considered the ways and means and how to put the Secretary of State in funds for it. Any estimate made at the time of the Budget is not likely to go wrong as far as the Secretary of State being put in funds is concerned is it?—It may be quite upset as regards the method of financing—by what may happen as regard to the monsoon in India, and in regard to conditions which may or may not render remittances possible under circumstances which the Government consider advantageous to the taxpayer. That is a very important condition.

11,615 But that is a condition which applies to the whole of the Indian Budget, and not only to the Secretary of State's finance?—The reactions on the Secretary of State's finance are also associated with

\* See Appendix 7a (A).

† See Appendix 7b (C) and 1 (D).

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Mr Cecil H. Kitchin, O.B.

[Continued]

cent? That raises questions of policy, two aspects of which I should like to bring to your notice.\* The first one is that if you leave large amounts in India, as I gather is suggested, instead of drawing them over to this country under conditions which are favourable, you might find yourself unable to bring those funds over to this country later when you need them urgently owing to a change in exchange conditions. Therefore you would find yourself short of money on this side and full of money on that side with the result that the expenditure to be financed on this side would have to be provided from other sources, presumably sterling loans, to the disadvantage of the taxpayer of India, since they would not have effected the remittances ex hypothesi at times when it could have been favourably achieved. That is the first point. The second point I suggest bears on the proper use of Government deposits by a bank.

11,007 Interrupting you I just want to say that the Imperial Bank does not come into this discussion at all. I want you to consider only the general taxpayer and the commercial community in India, and have nothing to do with the Imperial Bank at present?—(in considering the position of the money market in India)

11,008 I think that comes in the first consideration which you named?—The first consideration I named was the possibility and the likelihood under such conditions in certain cases of expenditure on behalf of India having to be financed under more extravagant and less advantageous conditions for the people of India. The second consideration to which I would draw attention is the use of Government balances for the purpose of easing the money situation in India. In this country—I quote from the Chairman's book on "The System of National Finance"—"the position is that 'Public deposits at the Bank of England in India. Neither the Treasury nor any other Government Department, nor the Bank on its behalf, make any use of them. They are credit which is not available for trade or any other purpose until it is paid out again and released.' That is a position which has not applied altogether in India hitherto and there may be good reasons for not applying such conditions in India, but it does seem to me that the Government deposits, which have to be absolutely available if the Government thinks fit for transfer to the other side, ought to be used with great discretion in the way of easing the money market in India, and that any policy which might lead to the money not being available at once wants to be very carefully considered."

11,009 With regard to the first consideration can you give us any concrete instance from your experience during the last few years that in a particular year, if the Government had not remitted so largely and had not kept such large balances here, they would have suffered later on? Can you give one or two instances which will bear out the apprehension you have mentioned?—I do not know whether the question is one which I can really answer, because we are judging things in the light of somewhat unusual events. The events of the last few years, under which India has had a series of favourable monsoons on the whole and under which exchange has been generally rising, are events which do not always ensue, and if you have a condition of things in which that favourable cycle is interrupted, it is clear that that great advantage may be thrown away by folly or omission to effect remittances under conditions which are in fact favourable.

11,010 I do not tie you down to the last three or four years. Take the pre-war years. Consider the question under normal conditions and select any

normal period you like?—In this kind of matter one has to be prepared for departures from the strictly normal. I do not know how far it is reasonable to say that India enjoys normally good monsoons. The occurrence of a bad monsoon here to be regarded as an event which, sometimes or other, must occur. It may occur with more or less frequency or with more or less seriousness. All this kind of action is an insurance against an interruption of the favourable cycle of Indian trade. It is clear to me that if you had any set-back at any time the fact that remittances had been effected in advance would be found to the advantage of India.

11,011 Do I understand that the only consideration which the Government of India had in mind in sending such large amounts here, and which caused the Secretary of State to maintain large balances, was the anticipation of a bad monsoon in India?—I should say the object of that was probably twofold—first to safeguard the interests of the Government in the event of any unfavourable situation developing in the ordinary current of Indian trade, and second to avoid, so far as possible, the need for borrowing in sterling, when funds could in practice be provided from India. It has advantage in those two directions, because, as I have said on previous occasions, the habit of the Government, which always has large capital expenditure to incur on this side, is to budget that in the coming year any excess drawings above what is required for immediate purposes should be utilised on this side in reduction of or for the avoidance of fresh debt on this side. So we always budget each year to mop up any surplus fund that may have been drawn in a previous year. The Accountant-General habitually frames his estimates so as to bring his balance down at the end of the forthcoming year to the minimum required for the conduct of business.

11,012 You are unable to give me any figures regarding a particular period that you may have in mind?—Not without looking up the matter. I can only say in these last few years the policy pursued has been of great advantage to India. It is due to this fact that India has been able to get along without further sterling borrowing. It is because we have been able to draw these large funds from India at appropriate seasons that since May, 1922, there has been no sterling borrowing in this country. We have actually been able to frame the Budget for the year 1923-24 on the same assumption, despite the fact that we are buying up this railway, and contemplate, if all goes well, the repayment of the balance of the sterling loan which the Government has the option to repay in the autumn of this year.

11,013 When was the last loan raised here?—In May, 1923.

11,014 Since then you have not found it necessary to borrow any more here?—No new borrowing. There have been some renewals of railway bonds, but that is about all.

11,015 (Chairman.) As regards your first consideration, let me refer you to the Final Report of the Chamberlain Commission. They say to paragraph 153 "Again, it has been urged that the policy of granting loans in India may interfere with the remittances of Government funds to England at the most favourable rate," and in paragraph 154 the following argument is advanced "What is in the minds of those who urge this objection is that the grant of loans from the Indian balances will reduce the demand for Council drafts in the busy season when exchange is at its highest, and that consequently, there will be a loss when the Secretary of State finds that he has to draw money to London at a less favourable season. It appears to us, however, that the effect of such loans cannot be to reduce the aggregate amount of Council drafts sold, at the most it can result only in a shifting of the sales from one part of the year to another, and it is not clear that if the exchange in consequence falls at one

\* The high balances from June to October 1922, were largely accounted for by the receipt of the proceeds of the sterling loan of £20,000,000 (nominal) raised in May 1921.—C. H. K.

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Mr CYRIL H. KITCH, CB

[Continued]

Yes, I think that is so. May I make one remark on this. When I was told this fact what was said to me also was that an exchange broker might understand that there was a certain amount of sterling to be acquired by Government at a certain rate, and that the allocation of that amount as between the exchange banks was to some extent within the discretion of the exchange broker who might go first to one bank or to another as the case might be and dispose of his exchange. The next instalment might be perhaps at less favourable rates. It was put to me that this arrangement did not always act with impartiality as between the banks seeing that it invested the exchange broker with a certain amount of discretion in the way of disposing of the business.

11,730. That indicates an argument in favour of a system of public tendering instead of that of private purchase.—That is so.

11,731. (Sir Panchanan Chakravarti.) I should like to ask a question regarding this distinction to which you refer in paragraph D. Would there be any objection when sterling is purchased in India to the Government's stipulating that remittance would not be paid to tenderers not on the Government's list until after the receipt of sterling in London?—I think it would be a complicated transaction. It would mean that an arrangement would have to be made in India first and then telegraphic communication here and then a further telegraphic communication to indicate that sterling had been received. It would introduce a further piece of machinery into the scheme.

11,732. It would bring in all who were not on the Government list and to that extent would enable everybody to tender in India?—It would have that advantage at the cost of the additional complication.

11,733. Those who do not have the privilege of being on the Government list might be given that option. It would certainly prevent their being cut out?—I think it is desirable to have uniformity in these matters. It might be represented as involving a distinction between those whom Government trusts more and those whom the Government trusts less and there may always be a question to be decided as to whether people were good enough to go on to the Government list or not.

11,740. Which do you think would suit the public better—being unable to tender at all, or being able to tender with one additional condition?—I dare say some might prefer that. I do not think it would be a happy or convenient arrangement for the authorities who had to work it. They would be subjected to very awkward questions.

11,741. (Sir Peggall Mont.) I understood you to recommend that remittances on behalf of Government should be made by the bank by public tender?—That public tender should be received at the bank for the habitual weekly remittances. I did not touch on the question of intermediate remittances, because that question has not been raised but I do contemplate that there would necessarily be some arrangement for intermediate remittances on the sort of lines we have been familiar with in the past.

11,742. I want to be quite clear what your scheme is. Would it be compulsory on the bank to make all remittances on behalf of Government either by tender or by intermediaries at a rate to be agreed upon with Government or what would the arrangement be?—The arrangement would be that assuming we had a weekly system of drafts (though it is open to question whether on occasions you would not like to have a bi-weekly system—two sales a week) that after the weekly sale the bank would announce that it was prepared to sell  $\times$  Lakhs at an approved rate and if there were demands for that additional amount of remittance they would deal with it and they would then announce a further amount if they thought desirable. Every stage would be open. Broadly speaking this would follow lines which appeared to have met the trade convenience and the Government convenience in the past. When ex-

change got to the upper gold point the banks' operations would be according to the demand of the public. As far as the Bank's own business was concerned, they would of course conduct their own operations with which we would not be concerned.

11,743. We are envisaging a system under which a bank would have undertaken the responsibility of meeting the requirements of Government on this side. Would it not unduly tie the hands of the bank if you were to require it to make all remittances on behalf of the Government in the way you have described? Supposing the bank had large sterling resources on this side and the Government wanted a large remittance it might suit the bank to make over sterling say, from the currency reserve making a corresponding contraction in India without calling for tenders. Why should not the bank be at liberty to carry out the transaction in that way?—I do not think you could exclude transactions being carried out in that way. That would in effect represent a sale of exchange to Government by the reserve, there being a corresponding adjustment in the reserve in India which would be immediately announced in the following week's return. That is an operation which would particularly come into effect at times when exchange was not such as to enable you to make remittances in the open market. Presumably that operation would take place when exchange was weak and Government was not able to sell drafts advantageously, and an operation of currency contraction was being carried out—if I follow your meaning correctly.

11,744. You talk of the Government selling drafts?—I meant the bank selling drafts on behalf of Government. When it might not be convenient for the Government to effect remittances in the open market, the operation might be effected by currency contraction in India against the release of sterling on this side, if I understood you rightly.

11,745. The bank might conceivably offer the Government a better rate than it could get by selling drafts. Is not that a conceivable position? Supposing the bank offered to make over sterling to Government at the upper gold point would not it be to the advantage of Government to accept it at that rate?—Assuming that Government could not sell in the open market at the upper gold point. If it could sell in the market at the upper gold point I take it there would be no financial gain or loss either way if that was the rate.

11,746. You cannot always tell, when you invite tenders what rate you will get and if you could get the top rate without a tender why resort to tenders?—I suggest that the bank would not be likely to offer sterling to Government at that rate unless it could see its way to replacing the sterling by the sale of exchange in India on at least as favourable terms. It seems to me the operation you are suggesting is much more likely to come into evidence when exchange is weak and Government wishes to stand out of the market and it suits the bank to contract the currency in India.

11,747. Would not it meet the case if you empowered the Government to require the bank to call for tenders if the bank could not otherwise offer a rate which was satisfactory to Government?—I suggest that the only satisfactory way of testing the market and ascertaining the rate is by inviting competitive tenders, and it is not possible to form a decisive opinion as to whether any rate offered by an individual is the best rate obtainable except by testing the market, and that in the long run you would not be likely to gain from proceeding privately because the bank would not be able to afford to offer an alternative rate unless it felt secure of covering itself by replacing say the sterling sold to you at as good a rate.

11,748. But supposing the two parties concerned—the Government and the bank—agreed on a particular rate, it seems to me rather peculiar to

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Mr CHAS. H. KISCH, C.B.

[Continued]

11755 Therefore I take it it would have to be left largely to the discretion of the central bank how best to acquire sterling?—That is so.

11756 Is not it rather a question of convenience? Where is the biggest market for sterling exchange? Is it in India or is it in London and would it not be desirable to concentrate, as far as possible, all exchange transactions in one place?—I think that would be generally so.

11757 Well, if there are, as no doubt there are, a very large number of transactions in sterling exchange in India is it not for that reason preferable to concentrate the market in India rather than to spread it to London so far as Government remittances are concerned, and to India so far as the remittances to the community are concerned, which are far greater than the Government remittances?—I speak under correction here but I am under the impression that it has been recognised that London is the biggest single centre for dealing in rupees.

11758 Is not that contradicted by the fact that during the last two years I think, the bulk of the sterling transactions of the Government were carried through in India without inconvenience and without any detriment to the Exchequer?—The actual contract has been effected in India but my recollection is that on some occasion the Government of India have themselves stated that London is the biggest single centre for dealings in rupees. I might be able to turn up that reference if I were given a couple of minutes to do it and it might be of interest in the Commission.

11759 I am rather struck with the idea that the market should be where it will give the greatest amount of confidence to the trading community of the country?—Yes.

11760 If that is taken as a basis for decision, it seems to me pretty clear that it causes less disturbance if the tenders were opened in India and the exchange banks were to send out their cables from London rather than force the Indian commercial community to send over their cables to London. I only suggest that the long experience we have had of council drafts sold in London without any complaint carries pretty well with it the implication that the arrangement was extremely well suited to the needs of the principal customers, i.e. the exchange banks and large firms trading with the East. The fact that for generations London was accepted without any question as the most convenient centre seems to me to indicate that London was the right centre.

11761 But has not the external trade of India increased by leaps and bounds during the last few years and has not therefore the proportion of Government remittances become relatively smaller and smaller from year to year?—I very much doubt that and for that reason. In the old days the Government habitually borrowed in London for its sterling capital expenditure. I suggest that we might find on examination if we were to look back 20 years that the amount of remittances from India to London for Government were more in the neighbourhood of 25 to 24 millions a year as compared with present 46 millions. I think this year a fact which shows I think that the extent of the Government demands for remittances has fully kept pace with the capacity of India to supply those funds for Indian purposes by reason of an increased volume of trade. In fact the two will be seen on analysis to be closely connected in essence.

11762 (Sir Monckton Duddley) How do you enforce this right of veto in the case of difference of opinion between the bank and the Government?—Well on consideration I have suggested in reply to Sir Henry that if you can get a genuine central bank started it would be desirable to entrust it with its maximum responsibility possible and that I would rely on the influence of the Governor and the Government representatives to safeguard the

interests of the Government. I feel that the other method would bring with it disadvantages which perhaps would more than outweigh the advantages.

11763 You see the difficulties?—I see that it would militate so much against the independence of the bank that on the whole I think one should try and get on with it. If any disaster threatened one would have to consider the position. That is what it really amounts to but I should hope that never would arise.

11764 At the end of your paragraph 9 of your memorandum you recommend a discrimination between the Council's funds in London and sterling purchase in India—Perhaps the meaning of that phrase is not clear. I do not recommend discrimination. What I say is that at present as the Government issues rupees before it receives sterling, the Government in fact has to discriminate in regard to the firms with which it will deal *only* dealing with such firms as are so absolutely beyond question that it can pay them before they are paid. There is actually at present discrimination. What I am anxious to do is to avoid any need for discrimination.

11765 But in the preceding sentence you contrast the difference between the 1907?—Yes.

11766 May I ask what is the interval which generally elapses between the times when rupees are credited and sterling is paid over to the Government?—Under present conditions I do not think it is a matter as a rule of beyond about three days at most though there have been occasions when owing to the coming of the holidays the period has been slightly longer. We have taken the view, I think up to date that there should not be any prolonged interval, and it has been carefully watched that the interval should not be longer than a matter of a few days but it may go to two or three days.

11767 Is not the loss to the taxpayer a real one in that case?—There might be a slight loss to the taxpayer in so far as the delay in receipt of the sterling means a little delay in the time in which we can invest the proceeds here and begin to earn interest on it. That was not the consideration primarily emphasised but it is a point.

11768 That is a point but that was not really the point you had in contemplation?—I was not addressing myself to that point but now you mention it the sooner Government gets paid the quicker does it begin to earn interest on any surplus funds that it may have temporarily.

11769 (Sir Alexander Murray) I think in reply to the Chairman you indicated that some exchange banker had complained about the intervention of a broker between him and the bank as far as sterling purchases were concerned?—He represented to you as a matter of fact that on occasions there was a broker intervening who might have a certain amount of discretion in the way of disposing of the business. He made this observation to me not in the way of official complaint but as a comment.

11770 Who pays the broker?—I suppose the seller of sterling pays the broker in the first instance.

11771 Namely the exchange bank?—The exchange bank, I understand.

11772 The exchange bank employs a broker and therefore adds to the cost of the transaction as far as the exchange bank is concerned?—I take it that is so.

11773 It is the case that many banks buy direct from the Imperial Bank?—I believe that is so.

11774 Without the intervention of a broker?—I believe so.

11775 Therefore the natural assumption is if any individual banker brings in a broker and therefore adds to the cost of his transaction he is doing it for purposes of his own?—The suggestion as put to me was that the broker somehow was aware that there was a certain amount of business to be done in this behalf and he proceeded to sound possible customers as to whether they would be



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Mr CECIL H. KISCH, C.B.

[Continued]

January 1 and the Herschell Committee reported I see in 1893 and the Fowler Committee reported in 1898.—The rate mentioned was that accepted by those bodies.

11,807 I wish finally to draw your attention to the recommendations in paragraph 66 of the Fowler Report. We are therefore of opinion that the permanent rate should be that which has been adopted as the provisional rate in the past, and which is also the market rate of to-day, viz. 1s 4d for the rupee. The word there used is "permanent." The Fowler Committee adopted the *de facto* rate, because for six years it had been indicated as the temporary rate. The Fowler Committee further said that it was to be the permanent rate. That rate ruled and very effectively, for about 20 years. You recommend for adoption a new rate which has been acted up to by currency manipulation, and which has ruled only for one year simply because it has been the *de facto* rate for that one year.—In making that recommendation to the Commission I coupled it with the necessity of the Commission assuring itself from those authorities most capable of giving an opinion on that point that there was no reason to anticipate a marked change in the purchasing power of gold in the period ahead. When I made that remark I referred to the prospect that the Commission would have the advantage of discussing the matter with the Governor of the Bank of England, who is in a better position than anyone else to give an opinion as to the prospective course of gold prices.

11,808 I will deal with what you have just now said. That again is a question of regulation of prices by currency manipulation which you have rejected as a practical proposition for India in your memorandum.—I have rejected as a practical proposition for India that the Rupee should be left unharnessed to gold for an indefinite period and that its exchange value should be regulated by management with reference to movements of prices. I have rejected that as a permanent policy.

11,809 In fact, if I have understood you correctly, what you have recommended is this, that in the future you are not to change your ratio to regulate your prices but you strongly recommend the Commission to take into consideration the question of prices and variations in prices up till now in fixing the ratio at present.—I do not think that a Commission charged with the duty of making recommendations regarding the future rate of the rupee can ignore the actual ruling rate of the rupee. In other words, they have to deal with the facts of the present day, and not with historical events and changes of the past.

11,810 Can you tell us of any other countries which have taken this into consideration countries which had sound currency systems after the Armistice?—I suggest that the Belgian Government, the Italian Government, the Austrian Government and the German Government, in dealing with the future of their exchanges, have had or will have to pay regard to the actual relations of their currency to gold at the time when they frame their future currency policy. I am only saying that that is a consideration which anybody has to take into account. Of course, I ought to add one word regarding the interesting fact that the rupee exchange is the only important exchange of which I am aware whose gold value may perhaps be permanently raised. The great depreciation in the purchasing power of gold means that currencies which have retained the pre-war gold rating themselves reflect the depreciation of gold. The Indian exchange even if it is fixed at 1s 6d, will share that particular phenomenon with other currencies the difference being that some portion of the gold depreciation will not be reflected in the currency but it will not altogether be absent from it, because 1s 6d does not compensate by any means for the full depreciation of gold as compared with 1s 4d.

11,811 Do you think there is any parallel between the currency systems of Austria and Italy to which you have referred and the Indian currency system which we are considering?—The parallel is that any country which faces the problem of giving a permanent ratio to its currency must take into account the actual relation between the internal purchasing power of that currency and its external purchasing power in relation to gold at the time when it undertakes fixation. In that respect any country has to consider this problem in connection with the ruling level of prices within and without.

11,812 You think we ought to take a leaf out of what has happened to the currency systems of Germany, Italy and Austria to which you have made reference?—Nothing of the kind. I am not suggesting that India should take a leaf out of the history of those countries in regard to their currency depreciation in the past but I think that when countries including those countries whose currencies have had such a chequered history lately, undertake the harnessing of those currencies to the element which is still deemed to be the most stable in the world, namely, gold, they all have to consider at what exchange ratio the internal and external purchasing powers of their currency will be equated.

11,813 I took it you quoted those countries because you thought they offered parallels to Indian currency?—I quoted those currencies in response to a question as to whether or not other countries faced with the problem of currency stabilisation had to consider the relation between those currencies and gold at the time when they had to face the problem. It seems to me that all countries facing the problem of currency stabilisation have to consider that aspect of the case.

11,814 In that question I said "countries which had sound currency systems after the Armistice." I did not expect you to refer to those countries which offered very little parallel to the Indian currency system. You referred to a permanent rate. What is your definition of "permanent"? What was looked upon by the Fowler Committee as permanent in 1898 you are prepared to recommend to-day should be changed for what may be recommended by the Committee in 1926, and in 1929 or 1930 you may be prepared to recommend that what this Committee recommends now should be changed again. What is the value of the word "permanent" then? I think you used the word "permanent" in a previous reply to me, when you said "permanent ratio." By "permanent" I mean that it should be embodied in Statute and regarded as unchanging.

11,815 Unchanging only in certain circumstances, or when?—I cannot believe that the Fowler Commission foresaw the world war and all the catastrophic circumstances that it led to. The word "permanent" as used among people means permanent in so far as anybody can humanly calculate—subject to the limitations of human nature. What one means by "permanent" is that it remains for all time so far as one can reasonably foresee. That is the object of laying it down. If a world catastrophe occurs the firm resolve that it should be permanent for all time may be incapable of being maintained.

11,816 Am I interpreting your meaning correctly if I say by "permanent" you mean "not liable to change unless it has to be changed unavoidably"? Is that what you mean by "permanent"?—Unless it has to be changed unavoidably.

11,817 As the currency systems have broken down, e.g., in Germany, Italy or Austria or any other countries you mention?—Unless unforeseen circumstances arise which make it unquestionably in the interests of India to reconsider her resolve to hold the rate permanently.

11,818 From an economic point of view?—From the widest possible point of view.

11,819 Namely in this case the economic point of view?—In this case the economic point of view.

15 March 1926.]

Mr A BOWIE

[Continued]

## THIRTY-FIFTH DAY.

Monday, March 15th, 1926.

## PRESENT

THE RIGHT HON EDWARD HILTON YOUNG, PC, DSO, DSC, MP (Chairman)

SIR RAJENDRANATH MOOKERJEE, KCIE,  
KVOSIR NORCOT HASTINGS YEELES WARREN,  
KCIE

SIR REGINALD MANT, KCIE, CSI

SIR MANEKJI BYRAMJI DADABHAI, KCIE

SIR HENRY STRAKOSCH, KBE

SIR ALEXANDER ROBERTSON MURRAY, CBE  
SIR PURSHOTAMDAS THAKURDAS, CIE, MBE,  
MLA

Professor JAHANGIR COOVERJEE COYAJEE.

Mr WILLIAM EDWARD PRESTON

Mr G H BAXTER } (Secretaries)  
Mr A AYANGAR }

Mr A BOWIE, called and examined

11839 (Chairman) You are the General Manager and also a Director, resident in India, of the Allahabad Bank, Ltd?—Yes.

11840 You have been kind enough to furnish us with a memorandum\* showing the chief points with which you wish to deal. You say "The control and management of the currency should be a function of Government and ought not to be delegated to an institution." Is that a general opinion, or is it an opinion which has special application in Indian conditions only?—I should say it has special application to Indian conditions.

11841 Can you tell us the main headings of the conditions special to India which led you to this opinion?—India has an established currency which has been in existence for several years, backed up by the highest credit in India—the credit of the Government. The issue of currency notes has gradually widened and has been generally accepted because it has been submitted to tests in various crises, and I do not think an issue of currency notes backed by any lesser security, or issued by a bank, which would necessarily have a lower credit than the Government of India, would meet with the general acceptance of the people of India.

11842 Might it not be said that those two conditions to which you refer are not peculiar to India alone. In other countries also there might be a currency backed by the Government, and in other countries also there has been an increase in the acceptability of the notes?—The issue of notes has been of slow growth in most countries. The Government currency note is established in India.

11843 The crux of your reply, I think, is really this, is it not—things work well under the existing system, so why change it?—We need to see a very great advantage before we put the present system into the melting pot.

11844 We have a certain volume of evidence to show that there is in India, among educated public opinion, a certain amount of dissatisfaction with, and even suspicion of, the Government as the controlling currency authority. Is that your experience too, or not?—I would say that the circulation of the currency note in India meets that question.

11845 You would not see anything in the contention that the growth might have been even more rapid if the India currency authority had more resembled that of other countries who had developed currency systems?—The Indian

wants the very finest security which the country can offer. I do not think he would accept these notes unless he knew they had the backing of the Government of India.

11846 In paragraph 3 you say that the position of the Imperial Bank under its Act has left the indigenous banks defenceless against the operations of the State Bank. Will you kindly explain that idea, and tell us in what way the indigenous banks have been hit?—Banks live by borrowing money in the open market at competitive rates. Before they can lend that money on first class security they must get a margin between their borrowing and their lending rates. I believe the margin at which the banks can carry on at a profit is something between 1½ and 2 per cent. We are borrowing in the open market at a market price for money, and if we are going to lend on good security we must lend at a profit which is limited in India by the published rate of the Imperial Bank of India. The Imperial Bank has facilities by which it can get a considerable portion of its money not on the market at competitive rates. Therefore the Imperial Bank can lend on first class security at a lower rate than can those banks who are borrowing in the open market. The other banks cannot meet that state of affairs. They cannot get money cheaper and if they increase their lending rate they cannot get first class security.

11847 That refers to a later paragraph of your memorandum, on which I will ask you further questions later?—It has left the banks defenceless against the operations of the State Bank, which means that they are not in a position to compete on equal terms.

11848 Leaving further questions on this matter until we come to a later paragraph of your memorandum, let me ask at this point, whether you do or do not consider it as a fact that the establishment of the Imperial Bank has actually been a help to other banks in times of difficulty?—No, I have not found it so.

11849 To show you whether my questions tend let me put you a specific case. Did not the Imperial Bank avert a widespread panic on the eve of the failure of the Alliance Bank?—I think that was averted by the action of the Government of India who asked the Imperial Bank, on their guarantee to put up 50 per cent of the money required to pay off the creditors of the Alliance Bank. That was at the instance of the Government of India.

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11867 About when would that have been? Can you fix the period?—This is an extract from our Hathras Office a fortnightly letter dated 15th November, 1924. Money is in full demand. The Imperial Bank of India have already contracted with the big business firms of this place to purchase their demand for hundis on Bombay and Calcutta to the extent of 23 lakhs for a period of four months at one anna six pies per cent through brokers. That is a net return of one anna three pies. At Hathras, I should think it would take at least seven days for us to turn our money round, to pay out money in Hathras to this extent for hundis, to have them listed, to have them forwarded to Calcutta and to have them collected in the Calcutta Bazaar. We have to do all that for one anna three pies. Assuming it is a week, that is, 52, it works out at something like 4 per cent. For us it will be six pies less, because we have to pay and to get our funds back to Hathras, so it would work out in our case to something under 3 per cent, that is for four months from November, at the tight money season of the year—November, December, January, February and March. No bank can do all that business and get a return on its money over four tight money months at that figure.

11868 Can you tell us if that was a state of affairs which was long continued in this particular place?—I believe this is the first year of working.

11869 It continued for a year?—I do not know how long it continued. That was November, 1924.

11870 What I want to ascertain is whether these are sporadic and unusual cases turning up here and there, or whether it is a usual state of affairs?—This is a matter of hundis. In other offices it is a question of direct interest where we have been making advances, and have constituents for making advances on the security of produce, and we find the Imperial Bank immediately offers lower terms. Our rate is something like 7½, and the Imperial Bank offers to do the business at bank rate—5 per cent.

11871 Will you turn back to paragraph No 5, where you say "In fact the measure of protection to the public in this respect is not equal to that demanded from the banks established under the Indian Companies Act in Form F, viz., to disclose the secured and unsecured advances and, as a guarantee of the independence and impartiality of the control of the bank to show the sums due by the directors as principals and guarantors and as partners and directors in firms and companies." That measure of publicity was a special measure applied to India after the occurrence of 1913, was it not?—I think there was an Indian Companies' Act before then. I think we have always had to disclose these matters. It did not occur to me to look up that point.

11872 My information is to the effect that that was a special measure which was adopted after 1913. Do you know what happened in that year?—In 1913 several banks failed.

11873 In your view was that a useful measure, and a desirable one under the conditions of India and under the Indian banking system?—It is an added measure of protection. I should say.

11874 As regards the conditions imposed upon the bank you refer here to the guarantee of the independence and impartiality of control, which is imposed on other banks. Let me refer you to the bye-law of the Imperial Bank itself under which "no Governor or member of a Local Board shall sit, judge or vote on any matter connected with the business of the bank in which he is personally concerned or any motion respecting the loan or advance of money, or otherwise giving

of credit to himself, partner, co-trustee, servant or relative or to a private company firm or individual with which or with whom such Governor or member is connected." Does not that secure the adequate guarantee of independence and impartiality?—I have no doubt it does. In that case the Imperial Bank would probably not object to publishing the statement.

11875 A statement similar to that required from other banks?—Certainly.

11876 In paragraph 6 you say "The privileged position of the Imperial Bank of India hinges on the prestige accruing to them as Government bankers which, in the eyes of the public, secures to them the support of Government in an emergency. This position in itself means an actual monetary advantage in that with their credit as Government bankers the Imperial Bank of India ought always to be able to borrow at lower rates than other banks." Regarding the other side of the picture however, it is the case, is it not, that the Imperial Bank renders in its turn various services to the Government free of charge? Ought not that to be taken into account when you are considering the balance of advantage to the Imperial Bank?—Those are banking services.

11877 Whatever sort of services they may be, they are services that cost money?—They are the services which Government require from the Imperial Bank as bankers. They are exactly the same services as are required from all banks by their customers. We all have to give the same services to our individual customers.

11878 Are they all services such as any banker might render to any customer, or are they not specific services rendered to the Government?—They are banking services coming within the scope of banks—keeping their account, paying out and taking in money.

11879 Is it then your contention that the Imperial Bank only renders to the Government such services as any banker renders to any customer?—I should say there is no added service which the Imperial Bank gives to the Government as a banker.

11880 As to the question of remittance facilities, again I am ignorant, but does the Imperial Bank pass on any of these remittance facilities to other banks or does it not?—The Imperial Bank gets its remittances free. We have to pay a certain percentage. I cited in the case of these hundis at Hathras that we would have to pay 1/3rd, that is six pies out of one anna, three pies remaining after paying the brokers three pies and after paying six pies to the Imperial Bank to get our money back to Hathras.

11881 Then the other banks share to no extent in the special facilities of the Imperial Bank?—No. The general public practically have the same facilities.

11882 What I was thinking of was a passage in the report of the Controller of Currency dated 1924-25, in which he says "The maximum rate for transfers of amounts of Rs 10,000 and over was fixed at 1 anna per cent, but recently in order to assist other banks and to encourage them to effect their transfers through the Imperial Bank the rate for banks has been reduced to half an anna per cent." I take that to mean that the other banks did share to some extent?—No. I think that previous to that rule the Imperial Bank was giving transfers on Bombay to the general public at 1/2nd for amounts.

11883 So that your contention is that this was an illusory concession?—Yes.

11884 In paragraph 11 you say "The strong competition of the Imperial Bank with indigenous banks is generally admitted. In argument it may be stated that through the operations of the

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Imperial Bank, banking rates and charges have been lowered with a resulting benefit to trade. But if Government wished by conferring special privileges on a selected bank to benefit trade then, in fairness to the established banks, these benefits should have been made available to trade through all the banks with which the public had been accustomed to deal? Would it be a practicable proposition that Government should lend out its balances directly to various banks and firms?—No, it would not be practicable, but they could do it through the agency of the Imperial Bank.

11535 The Imperial Bank could receive instructions to lend out a proportion?—I should say so.

11536 Would that be a practicable limitation upon the Imperial Bank's control?—It would help the other banks to compete in some degree for first class business.

11537 As to its remittance facilities, would it be a practical proposition that they should also be shared out amongst the other banks?—I think all banks ought to be on the same basis.

11538 There would be no difficulty in the actual administration of such a distributive system?—Through the Imperial Bank. They have the Treasury. They are acting as in control of the Treasuries.

11539 It would have to be done through the Imperial Bank?—Necessarily, they occupy the position of Treasurers.

11540 They should do it for the other banks?—Yes.

11541 At the same absence of cost as they do it themselves?—Yes, otherwise the Imperial Bank is placed in a privileged position.

11542 I now come to your paragraph 12. I am bringing out the principal points in your memorandum. I see it is your opinion that were you to confer the right of note issue in addition to the functions of the Imperial Bank as at present constituted it would create an unassailable banking monopoly in India which would be to the detriment of the existence of competition amongst the banks?—That is so.

11543 And in paragraph 14 further emphasizing the same aspect, you express the apprehension that were the privileged monopoly of note issue to be in the hands of the Imperial Bank while still carrying on business as a commercial bank it would create suspicion that the Imperial Bank might deal with the needs of the general public as secondary to the needs of its own customers. As a result of that, as I understand, you come to the conclusion in paragraph 15 that if a bank is to be granted a monopoly of note issue it must be a State bank which does not compete with other established banks in general banking business?—Yes.

11544 Would you regard it as a satisfactory solution of the difficulties and disadvantages attendant upon the present position of the Imperial Bank were its functions to be divided between say, two institutions one of which was a true bank of issue and the other which carried on the commercial business of a bank?—So long as the banking portion of the Imperial Bank was conducted on pure economic lines, finding the money in the same way as other banks I do not see that there could be any objection. In respect of competition if the bank has the guarantee of the note issue that is another matter.

11545 That concludes the part of your memorandum which deals with the competition of the Imperial Bank as at present constituted. The remainder deals with your suggestions as to the elasticity of the currency. You express a strong opinion as I understand it, against the holding of hundis as part of the reserve and as against the issue of currency as against bullion. You say in paragraph 16 that "Assuming that

an effective gold reserve for the note issue is established the volume of currency will increase and decrease with the gold withdrawals from or deposits in the gold reserve. This will be automatic following the seasonal demand for currency in India. It has been represented to us in evidence that to make the expansion of the currency depend only upon the inflow and outflow of gold is of no assistance in meeting the seasonal demand for additional currency, because the gold inflow comes too late, it follows the seasonal demand, and it is too late to meet that demand. What is your opinion as to that objection?—It really depends on the location where the gold reserve is kept. If it is kept in London, immediately on telegraphic advice currency notes could be issued at once in India.

11546 Can an expansion of currency, which depends only on the actual import of gold, be sufficiently elastic to meet the seasonal demand?—The seasonal demand for currency is merely the amount people want to borrow in order to finance the crops. Either the additional amount required for the season's crops is found out of the credit balance of the banks, or from getting loans from the banks, including the private bankers. There is no currency outside. You either take it out of accumulated funds or out of loans from the banks. There is no additional currency to be obtained.

11547 What you contemplate, as I understand it is that the need for additional loanable capital should be provided on a sound system—only by the inflow of loanable capital from abroad?—If the local market is insufficient.

11548 Without any temporary expansion of the internal supply of loanable capital?—Of course, there would be an expansion of the internal supply of loanable capital if it were worth while for money to come out.

11549 That is from the boards?—Yes.

11550 Could that be relied upon as a way of easing the money market?—That would be one portion of the expansion. Necessarily, as the surplus of the Indian crops find their markets abroad it is merely anticipating the supply of money from the outside markets that is to say, the outside markets ultimately have got to pay for the surplus crops. We are only anticipating the supply of that money.

11551 In the first place, as regards the lesson of experience, has it been shown in the past that the return into use of currency from boards is of any assistance in meeting the seasonal demand or has it not been found, on the other hand that measures for the temporary expansion of credit by further currency were necessary?—At the point of highest trade activity we had no emergency currency. During the war, when India was at its highest point of trade activity there was no reason to apply to currency for emergency against a deposit of hundis.

11552 Do you go so far as to say that the present provisions, by which currency is expanded to meet seasonal demands, are unnecessary?—In this form?

11553 In their present form?—Yes.

11554 You say they are at present unnecessary?—Yes.

11555 It would be advantageous, in the interests of India, to keep the screw on during the season of activity?—Or outside money coming in, attracted by the rates in India.

11556 You have no apprehension that that would have any effect in checking the normal legitimate expansion of Indian trade?—It would probably check undue credit.

11557 Do you think the use of the present provisions for expanding the currency to meet a seasonal demand has had an effect in creating

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abnormal and unhealthy activities.—It may have helped to finance and hold up stocks that were not passing into consumption in other words over trade.

11903 If the expansion to meet a trade demand is provided from additional currency issued against hundis then the profit and interest goes to a central bank and so accrues to the benefit of the Indian community. If it is met by the importation of loanable capital then the profit and interest goes to the foreigner. Why, under those conditions, is it more advantageous that it should be met by loanable capital than by an expansion of your internal supply?—All expansion of currency under the present arrangement means that the bank rate is more or less fixed. Therefore the lenders in India are not getting the full value for their money. They lose in that direction. There are two classes of interests in India, there is the borrower's interest and there is the lender's interest. The borrower gets that advantage and the lender loses it.

11904 But would it lead to a reduction in the average bank rate for the year if you had no provision for expansion of seasonal currency?—There should be a peak in the seasonal demand for money. The bank rate might go up for the season's demand for money, but immediately the crop was liquidated the bank rate would go down. The average rate necessarily need not be much higher throughout the year.

11910 But in so far as you have a higher peak and a higher average, that would be adverse to the interests of the borrower?—To the interests of the borrower, yes.

11911 In view of the circumstance that seasonal currency is issued against hundis, which pay themselves off at the end of the active season, why do you apprehend that the arrangement for the expansion of currency for seasonal purposes may lead to any permanently unhealthy trade activities?—This arrangement as it is at present permits of a situation where it is possible for the issue of currency to be controlled by the authority creating the emergency. There is no economic control. They do not put their hundis on to the open discount market where an independent body of men would hunt or criticise the security. It simply goes before the Controller of Currency.

11912 Do I understand that this criticism is directed to the nature and class and status of the hundis against which the currency is issued, or as against the absence of more narrow limitations as to the amount?—It is the absence of effective control of credit. You cannot ask the Controller of Currency to be an expert in credit, and therefore the supply of emergency currency is controlled by the Imperial Bank.

11913. Supposing a system of control were to be adopted, of which the closest analogy is that of the Reichbank, by which the seasonal expansion is made against bills and as the proportion of bills to the total reserve advances, a tax is imposed which necessitates the raising of the bank rate. Would you see in that an adequate safeguard against those dangers to which you refer?—The German Central Bank is not actually in the discount market. The German Central Bank has an effective control over credit. They are discounting these bills, but it is not its own paper which it is passing, it is other banks' paper.

11914 Carry the analogy still further and suppose we had in India a true Central Bank, and that the provision of seasonal currency were entrusted upon this basis to the control of the true Central Bank. Would that be an adequate safeguard in your opinion?—Yes so long as that bank extended its credit with an eye to keeping its position liquid. As present the Imperial Bank

as constituted can discount their hundis. They need not keep an eye on the cash balance. They can rely upon this emergency currency, get hundis sent them into the currency and get further cash. They pass in the hundis. There is an effective control of credit.

11915 But such an effective control could be secured as I understand, first of all, by Statutory provisions as to the proportions of the reserve, and secondly by Statutory provisions as to the tax for temporary diminution of that proportion?—And also having an effective body of control of men passing the paper submitted—people with knowledge of credit.

11916 Would you criticise the knowledge of credit possessed by the present control of the Imperial Bank?—Oh no I say it is the Imperial Bank a paper which is not passed. There is not an effective control. It passes under the Controller of Currency and he issues emergency currency.

11917 Would not the concentration of the business in the hands of practical bankers who are responsible for the management of the true Central Bank remedy that?—At any rate it would be an effective control on the paper. I do not suggest for a moment that anything but first-class paper is submitted, but one can imagine a situation being created where the issue of currency could be extended by the authority creating the emergency or responsible for the emergency.

11918 Under what conditions would that arise?—It would arise if a bank was doing general banking business. Its customers' needs have to be supplied. The bank, for a moment, allows those customers' needs to get in excess of, shall we say the ordinary—may be over trading. The bank finds the money by going to the currency and there is no effective control.

11919 Such a situation could not, in all human probability arise (there would be no reason to foresee it) if the banking control were not conducting an ordinary commercial business?—By conducting an ordinary commercial business there is an open market. They are taking what is offered.

11920 (Sir Norval Maclean) In paragraph 9 you say "As consideration for this undertaking of banking development formerly carried out by other banks on their own resources." How long has the Allahabad Bank been in existence?—Since 1865.

11921 The Imperial Bank has been in existence for 3 years that is so, is it not?—That is so.

11922 During the period from 1865 up to the time the Imperial Bank came into existence, how many branches had the Allahabad Bank opened?—I should say, until 1920, roughly 30.

11923 From 1865 to 1920 you only opened 30 branches?—That is so.

11924 At that time you had the field to your selves? You had no Imperial Bank to compete with you in opening branches? If you wanted to assist the trade of the country, why did you not open more branches?—We were opening branches as it paid us to do so. As we found each office was turning in a profit, so we would open another.

11925 But you would not call opening 30 branches in that long number of years assisting the trade of the country, would you?—I would—within the province of the Allahabad Bank.

11926 Quite so but I put it to you that it was the cost and the risk of opening branches which prevented you from opening more?—If branch opening had been immediately profitable of course we would have gone ahead.

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1192. But we have had to open branches where there is no profit!—But you are lears of other organisations. The Imperial Bank has not been established only for 4 or 5 years. You are lears to the Bank of Bengal, the Bank of Madras and the Bank of India.

1193. How many branches had they?—That simply shows they did not find much profit in opening new branches.

1194. But would you have opened these branches if we had not?—We would have gradually developed.

1195. Only in places that paid!—Only in places that paid yes.

1196. Then that is looking to yourself and not to the country!—But our contention is that the Imperial Bank has opened branches in places in which we were the pioneers.

1197. And you say they are buying hundis at unprofitable rates!—Simply because they are not banking on economic lines. It did not pay them before to open branches. If it had paid them before they would have opened them but it did not pay them until they were subsidised. Then they immediately went into those places in which we had been the pioneers, and they said "We will reduce local rates."

1198. That is good for the country!—It is good for the country, but it is uneconomic competition.

1199. How long have you paid your present rate of dividend of 15 per cent?—We have paid it, roughly speaking for 13 or 14 years.

1200. Then your dividend has not gone down since the Imperial Bank came into existence!—It has not.

1201. You still pay 15 per cent?—We do.

1202. Then in what way are we harming you?—You are harming us in that we have not a wide enough margin of profit to be able to place money in reserves, and thus we are not able to keep on expanding.

1203. You can always do that by reducing the dividend!—I should say that the shareholders in the Allahabad Bank are not getting a bigger return than 6 per cent, which they could get in Government securities. We have 4½ lakhs of reserve, and we have 70 lakhs of ordinary capital and 48 lakhs of which is divided into 15 per cent does not give much of a return on the shareholders' money.

1204. Still you agree you are paying 2 per cent more than the Imperial Bank. We pay 15 per cent, and you are paying 15 per cent!—But the Imperial Bank are placing in addition to that dividend very big sums of money to reserve and to their pension fund. We are not.

1205. I suggest comparing the size of the two banks, you are doing as much!—Oh, no. You have got very heavy allocations to reserve.

1206. You say that the advances on Government paper by the Imperial Bank ought to be put under statutory control, it ought to be put in the Act, and you say you have never applied to the Imperial Bank for an advance. Have you ever heard of any other bank having been refused?—I have never heard of any other bank being refused.

1207. If we had refused would not we have been placing ourselves in a false position with the Government? We are in close connection with the Government and if we had refused would it not have lowered the prestige of Government securities? That is a question of internal policy as far as the Imperial Bank is concerned.

1208. But you have never heard of any bank being refused?—Not to my knowledge.

1209. Then why do you suppose you would be refused?—We do not want to place ourselves under an obligation to a competing bank.

1210. That is not our fault, that is your fault!—It would operate to our discredit.

1211. If you think that, you cannot blame the Imperial Bank!—No.

1212. Other banks come and borrow very largely. They have never been refused. Would not the question of exchange come into the matter of getting in all this capital from abroad? Do you think money would be attracted to India without reference to the exchange risk?—Money would be attracted by the difference between the English bank rate and the Indian bank rate, taking into consideration the cost of getting gold out and back again. That would add to the cost.

1213. You say that the expansion of currency is in the hands of the Imperial Bank, that they have the control?—They have the control.

1214. I say that the expansion of currency is entirely a question of supply and demand. If there is a demand for currency it is given. If there is not a demand it is not given!—It is the Imperial Bank a paper which is deposited with the currency.

1215. Paper which we guarantee!—Paper which the Imperial Bank has discounted to its own customers.

1216. You say in paragraph 4 "The clauses of the Act are framed to give the widest permissive powers to the Bank to engage in general banking business and so that nothing in the Act may be construed as restrictive, it is specifically stated in the Act that nothing shall be deemed to prevent the Bank from allowing any person who keeps an account with the Bank, to overdraw such account without security to such extent as may be prescribed." Do you know that the Bank's lawyer says that we can only give one lakh unsecured?—It is a pretty generous limit, unsecured.

1217. I consider it is the other way about. For instance there are many men in India to whom the Imperial Bank would be willing to lend 10 or 15 lakhs on their own name. When they come to us we have to say, "We can only give you a lakh. What do they do then? They go to you and to other banks where they can get their 10 or 15 lakhs!—But they can get any amount of money from the Imperial Bank with security."

1218. I said without security which is what you are alluding to. We lose all that business!—The "without security" business!

1219. Yes!—I do not know that it goes to the other bank.

1220. The men who want 10 or 15 lakhs unsecured go to the other banks!—It is a matter for the Directors. We have strictly to show in our balance sheet the amount we do advance.

1221. Our balance sheet is laid down under the Imperial Bank Act and not under the Act under which the other banks operate!—I understand that.

1222. With regard to the matter of Hathras before we went to Hathras we had letters from business people there asking us to go because of the high rates charged by the other banks!—Yes, they probably put up a reason.

1223. I should call that a very good reason!—I do not think our rates were excessive.

1224. They seemed to think so!—Did they specifically name the Allahabad Bank?

1225. They said other banks!—I do not think our rates were anything beyond the ordinary.

1226. Do not you think it is all for the good of trade that these rates should come down?—Trade is one section of the community. There is the

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other side of the question. There are the lenders, who compose an equally large body. I do not know whether this section of trade passes it on, they make their own special profits.

1172. I understand the Allahabad Bank addressed a letter to the Government of India pretty much on the lines indicated in your memorandum. That is a:

1173. And they received a reply? That is so.

1174. There has been no further correspondence since?—I think a reference was made to the Finance Department on the points in that letter.

1175. Still, you accepted the arguments in the letter, since you did not answer it? Oh, no, far from it.

1176. Why did not you go on with the correspondence?—We wanted to see whether there was another opportunity of ventilating our grievance.

1177. (Mr Purshottamdas Thakurdas) You said just now that the Allahabad Bank started in 1863. Can you tell us of any other bank opened about that time which started branches in India, competing with the Allahabad Bank? There is the Central Bank of India.

1178. That was after 1901?—Since 1863 I thought you said.

1179. Can you tell us of any before 1901?—There was the Punjab National Bank.

1180. How many branches has the Punjab National Bank?—I cannot say at the moment.

1181. Approximately?—I think they have a considerable number.

1182. How many branches has the Central Bank in the sphere of your activities?—About eight I should think.

1183. You cannot give me the number of branches of the Punjab National Bank?—I can not at the moment.

1184. You gave us an instance just now of a case where the Imperial Bank had cut into the rates. Can you tell us approximately what rates prevailed at Hathras for hundis discount as far back as your memory goes? I should think the rates then were about four annas.

1185. That is about 25 years back?—No. I mean up to the opening of the Imperial Bank.

1186. In 1920 it was four annas?—Roughly, about that.

1187. Can you tell me approximately what it was in 1890 or 1891?—It would depend on the difficulty of getting up silver—the cost of bringing silver into Hathras. Currency notes for the seasonal demand were not generally acceptable. Now currency notes are more or less accepted. The rate was then dependent on the cost of silver laid down in Hathras.

1188. Taking identical circumstances, i.e., where you were handling either rupees or notes for the operation which you mentioned, is it not a fact that the rates have steadily and consistently gone down from decade to decade? Is it not a fact that the rates for hundis in the Muzaffar district, where the crops have to be financed have steadily and consistently gone down?—The rates for discount?

1189. Yes?—Yes. I should say so.

1190. To what do you attribute that? Not to the Imperial Bank?—To the general acceptance of currency notes.

1191. Where it is currency notes compare it with currency notes, where it is silver compare it with silver. Take for instance, 1870, when you moved silver, and compare it with 1880, when you were also handling silver. I suggest to you that the rates of discount for hundis have steadily gone down?—Yes, as the banks kept opening in those centres. In 1890 there were very few banks.

1192. Take any decade that you like?—Well, 1890 to 1900 I should say there were very few banks till currency notes came in, and then there was a certain development of banking, and that would bring down the rates.

1193. From 1890 to 1900 what was the tendency?—Then I should say the return of money was costing less.

1194. Owing to what?—Owing to the fact that currency notes were being accepted.

1195. That is not what I asked. I said take silver or notes, as the case may be. When you had to move even silver 10 years later your rates for discount for the same were lower?—When we had to move silver, but I should say that is simply because the banks were open at some of the larger centres.

1196. And were able to discount rupees at a lower rate?—Were competing with each other, and were bringing in further competition.

1197. By private banks?—By private banks.

1198. Then since 1900, when the notes began to be popular, what happened?—Then the cost to the banks was less, and they could afford to discount at a lower rate.

1199. Do I understand all through from 1863 to 1920 your margin of profit was uniform, but the rates declined because the cost of moving money was less? Is that your contention?—I should say that is a contributory circumstance from the fact that the cost of laying down money has got less the banks could give fair rates.

1200. It is not then, as may be inferred by some, that the rates have gone down because banks have reduced their profits in this business of discounting hundis as they are said to have done. Can you tell me what the rate of profit amounted to in 1890 and what it was in 1921 before the Imperial Bank came on the scene?—I am afraid I cannot.

1201. You stated that the rate the Imperial Bank charges since they started in 1921 brings you in a net return of about 3 per cent?—No, I am citing this specific instance of these Hathras hundis in November, 1921.

1202. In 1921 the rate that they offered left you 3 per cent net?—Not net.

1203. I thought you said so?—No. The total discount charge is 1 anna 6 pies, 3 pies for the broker, 2 annas 5 pies—find for getting our money back to Hathras would leave about 6 pies. That is a gross return leaving nothing for our selves.

1204. Which works out at 3 per cent on the capital which you locked up, I understood you to say?—Yes.

1205. The rate at which the Imperial Bank were discounting hundis at Hathras if adopted by you, would have left you a margin of 3 per cent net on the money locked up for the period?—But we had to pay interest on our money. We do not get our money free.

1206. I wonder if I have understood you correctly. It left you 3 per cent net for the period that the money was locked up?—No, not net return, our costs, establishment charges and interest always have to come out of that.

1207. You would say gross return?—Gross return.

1208. What did you count upon as a fair return before 1920 for a similar operation?—Probably we would want 1½ per cent to 2 per cent.

1209. Net?—Net.

1210. How much gross as compared with the 3 per cent gross left you by the Imperial Bank's competition?—It would depend on the bank rate.

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[Continued.]

12001 This rate of the Imperial Bank at Hathras had an effect in surrounding centres where the Imperial Bank had no branches. This took place at Hathras—Hathras.

12002 Was the effect of this reflected in the neighbouring centres within say 100 miles round?—I should say so. If the neighbouring centres had any correspondents in Hathras naturally they would try and avail themselves of the lower rate.

12003. This must have meant considerably less stringency of the money market in the districts concerned must it not?—Not less stringency.

12004. Less cost for discount of hundis means less cost for marketing the raw produce. The money the merchant got was cheaper, and to that extent he would be able to pay the cultivators a proportionately higher price?—The price he would pay the cultivator would all depend on the market for the particular commodity.

12005. For which there is competition among the various buyers?—Yes.

12006. If the buyers found they could negotiate their drafts cheaper by drawing money on Calcutta or Bombay, as the rate might be they would offer a proportionately higher price to the cultivator in competition with others?—I think it would be the market rate of produce which would more or less govern the price they would offer. Any saving they might make in their finance would remain with them.

12007. You think all the buyers would combine and say that the Imperial Bank is able to discount our bills cheaper, but we will keep up the rates?—If they could.

12008. Would they be able to do that? Would they be able to combine when they are competing one with the other and employing the smartest brokers to get the largest quantities within their purchasing limits?—I should have thought they would be able to work the market price for the produce. Any saving in administration of finance would come to themselves. If their credit is better if they are able to get a lower rate naturally of course they would keep that. They would not offer more money because their credit was better.

12009. The Imperial Bank I take it, would offer a uniform rate to all persons of a certain credit?—Certainly.

12010. They would not discriminate between persons?—No.

12011. If people commanding a certain amount of credit could get their bills discounted at 1 anna 6 pies per cent discount it would be the same for everybody of that standing?—Up to a limit. The larger people have larger limits and the smaller people would have lower limits.

12012. If people traded up to their limits they would get the benefit of the lower rate?—Yes.

12013. To that extent the overhead cost of discounting hundis was reduced?—That is so.

12014. And then they would offer a proportionately higher rate to the cultivator unless they all combined?—The bigger house would have the bigger profit and I doubt whether he would combine with the smaller man with the smaller limit.

12015. You do not think the lowering of the rate would be reflected in the price given to the cultivator?—No.

12016. You have considerable experience of district banks in the U.P. and in the Punjab?—I have not been in the Punjab.

12017. Then in the U.P. in your opinion whether the Imperial Bank charges 4 annas or 1 anna 6 pies the difference would not be reflected in the price to the cultivator? It would be kept by the buyer as I own extra profit?—I would make that a question.

12018. You make this suggestion as being justified by your experience of the Allahabad Bank?—No justified by my knowledge of how general trade transactions are put through.

12019. That a margin of  $\frac{1}{2}$  per cent in charges could be retained by competing buyers in the raw produce market?—It is so much added to their profit.

12020. Practically then it does not matter at all what rate a banker charges for discounting hundis because the lower the rate the bigger is the profit of the middleman?—The banker's charges would be infinitesimal in addition to the price of the product.

12021. But small savings in all these infinitesimal looking directions would amount to something tangible on a firm's total purchases?—On the whole crop cost certainly.

12022. You said that the Imperial Bank also lent out money at cheaper rates in these up-country centres. Would you give us an approximate idea of what sort of rates the private banks charge in this district you have in your mind?—In the case I had in mind we were offering  $\frac{1}{2}$  per cent as a fixed rate.

12023. All the year round?—Oh, no.

12024. In the season?—For the season.

12025. The Imperial Bank offered to lend money at the bank rate?—With a minimum of 5 per cent.

12026. At the bank rate with a minimum of 5 per cent?—Yes.

12027. You found that the Imperial Bank thereby attracted borrowers?—That is so.

12028. That is your complaint. May I ask if the private banks in the Punjab and U.P., in the sphere of the Allahabad Bank, also borrow at their branches?—They do.

12029. Does the Imperial Bank also borrow at the same branches?—Yes, taking deposit business. They take deposits at in effect.

12030. Do you offer higher rates than the Imperial Bank?—We do.

12031. And the Imperial Bank gets a certain amount of deposit business at the lower rate?—Yes.

12032. How do you explain that?—I should say the superior prestige of the Imperial Bank.

12033. Is the difference in the borrowing rate anything tangible or is it just nominal?—It is tangible so far as bankers are concerned.

12034. What would you say that it ranges between 4 and  $\frac{1}{2}$  per cent?—I should say at that time nearer  $\frac{1}{2}$  to  $\frac{1}{4}$  per cent.

12035. When the Imperial Bank makes money available in Mofussil centres on the basis that merchants get it in Calcutta and other important centres, is there any reason from the general point of view of the development of the country why anybody should have a grievance? Why should the people in the inland districts not benefit by the same machinery by which people trading in Bombay, Calcutta, Madras and Karachi benefit?—They bank merely because the Imperial Bank is placed in a position in which they can afford these rates.

12036. You say they can afford these rates for long only because they get the balance free?—And other benefits.

12037. Namely?—Payment for services.

12038. What do you mean by payment for services? I should like to understand that?—We will say the return of the Public Debt Office. There may be a large return for services in the Public Debt Office. That goes into the general bank margin.

12039. You mean the Imperial Bank makes a profit on it?—They get payment for the services.



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12040 You think there may be a surplus in this. Supposing that was not so do you think there is anything in it at all? Supposing the Imperial Bank a disbursement for the Public Debt Office management was about covered by the payment received for that purpose do you think there would be anything in it?—No to that extent there would not be

12041 Then we will leave that. If there were any margin there would be an advantage in it but if there were not there would be none. You do not know the figures I suppose, nor do I know the figures accurately?—No

12042 Is there any other special advantage you have in your mind?—I do not know whether there was mentioned sums of interest on free money?

12043 That is free deposits?—Yes

12044 That is the only advantage that the Imperial Bank have?—And also their prestige as Government bankers

12045 Those are the two then?—And the fact that they get remittances for nothing

12046 I propose to take the remittances part a little later. Those are the main advantages namely, free money and their prestige?—Yes

12047 These you think are the only reasons why they are able to bring money cheaper to the borrower in the up-country districts?—Yes

12048 Do you think it is of sectionalism from the point of view of the cultivator, who may be able to get better prices if his buyer can get cheaper finance from the Imperial Bank?—Yes, if you can maintain banking competition

12049 What the Imperial Bank does has to be followed by other banks sooner or later?—If they do not make a profit they cannot keep on banking

12050 You mean the other banks may stop?—Naturally, if it is not profitable

12051 It has not got to that yet?—Not yet

12052 (Chairman) You say there is an apprehension that one or two of the other banks may stop, and also there is the possibility that they may take an inferior class of business?—Yes, rather than let their profits go

12053 (Sir Pálalotamdas Thakurdas) If it is not a very good class of business, that cannot last very long. The main thing is whether they will stop carrying on their operations. I wish to ask whether your bank has a branch at Harpur?—Yes

12054 May I take it that you know something about the operations of the Allahabad Bank at Harpur?—Yes

12055 You have been established at Harpur for a number of years?—I do not know that Harpur is a full office. It has been established as a pay office

12056 It may be a sub-branch?—Auxiliary to the Delhi branch

12057 You have been there for a number of years?—Yes

12058 The Allahabad Bank lends money there on wheat put in pits?—That is so

12059 And has had a very big turnover there? In fact it was the only bank there for a number of years lending money on wheat put in pits?—That is so

12060 Wheat carried over the Monsoon period the slackest season in the money market?—It may be so

12061 Is it a fact that when you started at Harpur the return to the bank was somewhere about 11 per cent, or at least more than 10 per cent?—I should say it would be about 10 per cent

12062 In the period from say May to October?—That is so

12063 Later on another private bank came in, and the rate was reduced to 8 per cent?—Quite possible

12064 Since then the Imperial Bank has come in and the rate has been reduced to somewhere about 6 per cent, if not a little lower?—Yes

12065 Would you call that undesirable competition?—Yes, I certainly say it is undesirable competition

12066 You think 10 per cent for the slackest part of the money market period was a reasonable rate?—Seeing that we had no employment at Harpur the other portion of the year

12067 If the rate has been reduced from 10 per cent to an average of 8 per cent or 5 per cent, you think that is an activity of the Imperial Bank which ought to be stopped?—Unless they are placed in the same position as we are for borrowing money

12068 But a private bank was able to lend cheaper than you?—Quite possibly

12069 And that bank had not any of the advantages of the Imperial Bank?—That is so

12070 Therefore, you think that no bank in India should be disturbed in its sphere of activity?—No

12071 I am sorry, but I have not understood you correctly. There was your bank, which lent money at 10 per cent during a period when the banks at Bombay and Calcutta would be glad of an investment at 3 per cent or less. Another bank came in in ordinary competition, and reduced the rate to 8 per cent, and took a good slice of your business. Then the Imperial Bank came in. It has not been contended that the Imperial Bank has been lending money in that centre at anything less than the bank rate. All that the bank does is to lend money to men who are holding wheat in that area at bank rate?—That is so

12072 You call that activity of the Imperial Bank one which is undesirable and should not be encouraged?—Because it cuts at the existences of the other banks

12073 Exactly. Banks which were, in the opinion of some, doing much better than they should have done?—It was paying our branch there, but that 10 per cent was only a seasonal advance. We had no advances there generally

12074 It was the slackest part of the season in India and you made 10 per cent then?—I admit that but we had to keep up the establishment and pay house rent and pay the staff for the whole year which had got to come out of those profits for that temporary period

12075 But when another bank came in that bank had all the charges which you have mentioned and could still lend money at 8 per cent, and be happy with it?—Certainly

12076 You call that disturbance undesirable?—No certainly not

12077 Not the disturbance caused by the private bank?—Certainly not

12078 You said that the reduction to 5 per cent for transfer of money which was referred to in the extract read out by the Chairman was illusory?—Yes

12079 Why do you call it illusory? At first it was 5 I think?—Yes

12080 Then the Finance Department on representations I presume from other banks reduced it to 5, which is a 50 per cent reduction?—Yes

12081 Why do you say that is illusory?—On the total transfer the gain to the bank would not be much. In any case the Imperial Bank were giving for 1½ transfers between Bombay and Calcutta a rate which was already effected

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12082  $\frac{1}{2}$ —Yes, for big transfers.

12083 If the rate notified for big transfers was also notified as the rate for smaller transfers, would not that be a great facility to the man handling the smaller amounts?—Certainly

12084 To that extent?—To that extent

12085 Taking people in the districts concerned in the smaller amounts, it would be an advantage to them?—That is so

12086 To a bank which was operating in crores it may not mean much. It would not want 10,000 rupees, but 10 lakhs of rupees transferred? But the Government of India looks to the benefit of the larger number, that is the man with small means, and to him there was a tangible concession, was there not?—The reduction of  $\frac{1}{2}$  per cent.

12087 And putting it within the reach of the smaller man?—They would be glad to get it

12088 There is nothing illusory about it then. It was a substantial gain for the man who handled small amounts and was to that extent welcomed by the commercial community especially in paragraph 17 you say that "Money is available in India if the price is paid for it." You had in your mind if I understand it correctly, that if no emergency currency was issued, and money rates were allowed to move on their own merits, hoards would come out, and more money would be available. May I ask you to take your mind back to the period, January to June, 1924, when the Imperial Bank Rate ruled between 8 and 9 per cent for five months?—Yes

12089 You also remember, perhaps, that during that period the Imperial Bank had drawn the full amount of 12 crores for emergency currency. If that full amount of 12 crores of emergency currency had not been available, do not you think that the money market would have gone still higher?—It might have operated in another way. It might have operated as a check to credit. You remember that cotton ran up to 650 a candy, and people would need a tremendous lot of money for financing the crop. If the money was not there to finance that rise, it is doubtful whether it would have happened

12090 I am glad you mentioned that point. If credit is scarce and money is high, what would happen is that the cultivators would have to sell cheaper, and there would be a consequent depression?—Depression in what?

12091 Depression in prices, there would be a lower price to the grower?—That is so

12092 You think that from the point of view of the welfare of the cultivator class the Government of India should adopt that policy?—I do not believe that in this year when the price of cotton went to 650 that the cultivator was getting 650. The price I think, was running at from 510 when the cotton came in. Later on in the year it rapidly rose but I doubt whether the agriculturist got more than 510

12093 He perhaps got the average between 510 and 650 because the agriculturist did not market the whole of his crop at 650 and it is a reasonable assumption that the agriculturist must have got the average of 510 and 650 according to the period at which his crops were marketed?—That is so

12094 You do not remember any artificial manipulation in the crop or produce market of that year? Well, I should say there was rather an extensive speculation in all up-country centres. On a rising market they all try to lay hands on the stock

12095 There was no corresponding breakdown. There was nothing to show that the rise was unnatural. That was the year when the American cotton prices were ruling high. Some sellers

might have been caught short, and so forth, but there was no counterpart to it showing that prices were run up on speculation and when speculation was over the market broke?—Yes, I rather think that describes it

12096 You agree?—Yes, that rather describes it

12097 That then really was an abnormal season?—Yes

12098 But surely the cotton market did not take all the finance?—It took a great deal of the finance

12099 You think a great deal?—Yes

12100 If it were not for that you would say that the price was naturally justified by other circumstances?—I should say so

12101 And therefore, if there had been no emergency currency in that year, owing to lack of money, there would have been a smaller return to the cultivator?—Yes. There would have been a reduction in the price of goods.

12102 In a normal year do you consider it desirable that there should be allowed a reduction in the price of raw materials owing to high money rates, if such rates could be avoided by temporary issues of currency?—It all depends what the credit is financing. If it is financing a surplus of stock, holding up the market awaiting a demand for consumption, then that is unhealthy

12103 If it was not so—if it was not what you said just now, it would be healthy and normal?—Quite so

12104 Any setback would be undesirable?—So long as goods are passing rapidly into consumption it would be perfectly healthy

12105 Supposing that the Imperial Bank, with their representatives on the central board watching trade conditions, find circumstances not to be what you have just mentioned, but the normal, and then finding that the currency is insufficient, put more in circulation, would you consider that to be undesirable?—Yes, I would, because it is their paper. They first pass the business, and then they judge upon it

12106 I should think they judge upon it first, and then decide whether to ask for an increase of currency?—I will put it in another way. They first discount the paper, and then when there is no emergency they judge on the merits of dealing with that emergency

12107 Have you any reason to believe that the Imperial Bank and the Finance Department engaged in the control of currency do not carefully watch all that you have mentioned?—I have no doubt they do

12108 Can you point out any instances where they judged wrongly and made money cheaper, and thereby committed an error of judgment?—I am not in a position to say

12109 If money became very scarce and the rate of interest ruled very high, do you think it would tend to more hoarding or do you think it would encourage the hoarders to come out with their money? What is your experience?—I think it would tend to make the hoarders come out to get the temporary profit

12110 But the man who hoards does not care for interest. He cares more according to his conservative ideas, for absolute safety?—He is still hurried by the attraction of a rate. A good rate of interest is certainly an attraction

12111 That would occur to the man who is a lender or moneylender and hoards, but it would not matter to the layman who has hoards. He sees people scrambling about for money, and he fears people being taken about as likely to want money owing to scarcity of credit, and would not

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he say ' I am a very wise man I have no anch anxiety My money is safe in my board ' He would not take the money out of his board at that juncture? He might risk a portion

12112 Although he boards his money and refuses interest for it! In such circumstances when a crisis threatens the financial market you think the man who boards would still take out his board and say ' I will risk it '—Money does come out at a good rate

12113 You said at the start of your examination to the Chairman that the Imperial Bank was competing for every variety of business with other banks Have you any other variety of business in mind barring the reduction in funds rates and the rates at which they lend money in up-country centres? General lending business

12114 Does the Imperial Bank do any other banking business besides that which I have mentioned?—Yes

12115 Which?—Advances on cash credits

12116 That is, against goods?—That is against goods

12117 That is lending?—Lending

12118 Lending on something that is liquid?—The same as the grain transaction—the same as advancing on produce

12119 That is advancing on raw produce?—Yes

12120 When it is in the course of being marketed?—Yes

12121 The Imperial Bank does not lend on landed estate They do not lend on mortgage?—I think occasionally they do

12122 It is against the Act It is provided in the Act that they cannot lend on mortgage?—Well, I do not know whether they lend strictly on mortgages but the primary security very often is a mortgage

12123 The Imperial Bank takes a lien on property when they find that a party is not able to meet the liability?—No, they may initiate the transaction where the primary security is a mortgage

12124 It is provided in the Act that they may not do so, have you any instance to show that there has been any particular transaction of the nature you just described? You need not give names?—I have got here a Company report which speaks of 21 lakhs advance made by the Imperial Bank of India to a certain supply company on the security of the latter company's own mortgage debentures jointly and severally with the firm's guarantee

12125 I take it that the Bank in that report is the Imperial Bank and not the Bank of Bengal?—Yes, it is 1925

12126 That is an industrial concern, I suppose?—Yes

12127 And the debentures of the company are a security to the bank?—Yes, mortgage debentures

12128 What is the other field of competition? Have you anything else in mind?—Well this is a mortgage, and block security against credits, and security against stock—all banking transactions

12129 Emergency currency facilities have come on only since 1921 Before that it was not resorted to, and it was not even provided for?—It was not provided for

12130 Do you think the very fact of its being necessary to use the emergency currency might be largely due to unstable exchange?—Yes I would say that those unstable conditions of exchange plus that barrier between India and the internal money market and therefore India had to stand on its own feet

12131 The main cause of your complaint, then, is not anything wrong with the management of credit by the Imperial Bank, but something to the domain of exchange?—Something in the domain of exchange

12132 When that is finally decided and assumes the normal, this may not have to be resorted to?—I hope not

12133 It was not resorted to before the war period, and it had to be resorted to owing to exchange being unsettled and bankers unwilling to bring out money as they did not know at what rate they would be able to take it back?—It was in artificial position

12134 It was an artificial remedy in an artificial period?—Yes

12135 (Sir Reginald Mant) With regard to this question of emergency currency, you have expressed the view that if the local money market does not suffice to meet the seasonal demands, then additional supplies of loanable capital must be attracted from money markets outside India, how do you contemplate that that money could be brought into India? Do you contemplate actual imports of gold and exchanging it into Indian currency?—Imports of gold so long as the sterling remittances were not available either by banks or Government

12136 Do you consider that the Government should sell Council bills in excess of its own requirements in order to enable trade to be financed?—No, I think that would be something outside, and bringing an artificial element into the balance of trade

12137 The balance after the Government's requirements had been met would have to be provided by imports of specie?—That is so

12138 That would cost money?—That is so

12139 In the same way, during the slack season that specie would have to be sent out of India?—That is so

12140 Would not that impose an extra annual cost on the trade and production of the country?—It would

12141 Is not that an objection to your scheme?—No It keeps the definite guarantee that credit is tested and has got to be supplied from one market or from another It comes in to the market and competes with other claimants for credit and is tested according to the demand

12142 The point I put to you is whether it is not an advantage to a country to finance its trade and production from its own internal credit, when it can do so, at a smaller cost than by importing gold from abroad?—As long as there is no artificial element introduced to the manufacture of currency

12143 Then you would admit the general proposition but your objection is—?—To the manufacture of currency

12144 To the machinery adopted?—And also to using the currency as a rediscounting market

12145 (Sir Henry Strakosch) I want to deal with one or two points in the first portion of your memorandum You say there ' The control and management of the currency should be a function of Government ' In the course of your evidence you stated if I understood you correctly that your main objection to the control of currency by an authority other than the Government is based upon the assumption that the Imperial Bank as at present constituted might be entrusted with it I did not understand what your preference would be between a real central bank entrusted with the sole right of note issue and the Government?—Any other authority than the Government of India offers a lesser security

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12146 Even though the right of note issue is closely defined in its charter as far as the reserve to be set against these note issues are concerned?—The reserve before it would bring conviction of equal security would need to be an enormous proportion of the 1916, the metallic reserve.

12147 What proportion would you suggest?—To commence with until the new notes had been tested under a crisis and you had seen what happened in a panic, and had been put through practical tests I do not think you could hold a reserve below 75 per cent.

12148 75 per cent of metallic cover?—To ensure convertibility.

12149 Only in those circumstances would you prefer the management of the currency to be handed over to a real central bank?—Well I am voicing my personal opinions and say that I as a banker should not care to put my signature to a note with an obligation to convert it unless I have an enormous reserve in metals.

12150 Now I come to that part of your memorandum which deals with the elasticity of the currency. You there say: "The currency ought to have no concern with the provision of loanable capital and further down you say: 'Currency should not be asked to function as a rediscount market.' I take it you will agree that the volume of currency needed by a country varies according to the amount of goods and services to be exchanged and that the volume of currency therefore must be expanded or contracted according to the volume of transactions taking place?—The volume of transactions taking place in goods is regulated by the demand for those goods coming on to the market. They do not come all at once on to the market.

12151 Take what is usually called the busy season in India, the harvesting of crops. Then goods and services are exchanged much more freely than in the slack season?—That is so.

12152 For that period you would need a greater volume of currency would you not?—Yes, or increased velocity of the turnover of your present issue of currency.

12153 A greater velocity?—Yes, for instance if there is speculation and it holds up goods, it freezes goods down at different points throughout the country. That means an added currency.

12154 If you are not able to increase the velocity at will to correspond with this greater volume of exchange what happens?—You will increase the velocity if you have your penal bank rate. The bank rate goes up and you make them get rid of their goods much more quickly.

12155 I do not quite follow that. How will a high bank rate increase the velocity of the money?—It will increase the velocity so that there will be no holding up of stocks at different points.

12156 I am not speaking of that. I am speaking of the ordinary crop movement. How can you by raising your bank rate increase the velocity of money?—It simply means that stocks are cashed in much more quickly.

12157 Is it physically possible to reap your harvest much quicker than you usually do it?—No the harvest is reaped then comes through the agencies the local markets, and if people anticipate there is to be a rise in price it is held up. That means a big demand for currency on a rising market. On a falling market the cultivator finds some difficulty in getting rid of his stuff all at once. He has to do it piecemeal as no one wants to hold stocks, and there is a less demand for currency.

12158 I am not thinking of holding up stock. I am thinking of the ordinary process of harvesting your crops as I have just mentioned. Supposing no holding up takes place do you

in those circumstances, require a greater amount of circulating media than you do in the slack season?—Yes you do.

12159 You say you do?—Yes.

12160 Therefore a certain amount of expansion has to take place?—A certain amount of expansion.

12161 You propose that that expansion should take place by the introduction of credits from abroad or in other words, by the introduction of gold which you sell to the currency office and by that process you propose to increase the monetary circulation in India?—That is so.

12162 Let us suppose a set of circumstances somewhat on those lines that India happens to have a very bountiful harvest and at the same time you have very stringent monetary conditions in other countries. How do you then propose to deal with the situation?—A bountiful harvest would probably lessen the price of your goods.

12163 Yes but those goods have to be got away and marketed?—Yes but it would bring down the money value.

12164 Therefore your remedy in such circumstances, is that prices in India will have to be knocked down in order to meet the uncontrollable conditions abroad?—Not knocked down. They would remain in parity with the world prices for the same commodity.

12165 You would knock them down beyond that?—They could not be knocked down beyond parity.

12166 Have you heard the expression prosperity crisis used in connection with the crisis in the United States in 1907?—I have.

12167 Was not it the case then that the crisis at any rate to some extent was brought about by a bountiful harvest in the States, and the inability owing to the system of currency then established in America to expand the currency sufficiently to meet the legitimate demand?—Yes that was so.

12168 What was the system in America that brought about that state of affairs?—More or less an issue of currency against gold and to a certain extent against silver.

12169 That is exactly the type of currency that you would like to see introduced into India namely the exclusion of bank or true commercial bill?—Yes but I should suggest automatic control instead of managed control.

12170 I do not quite follow that?—If your currency was only going to come out against gold then you would have to find gold for you would get your currency. At present we have got an emergency arrangement for issuing 50 lakhs of currency. That is more or less judged by the chief bank the State bank. They decide in a moment when that emergency currency is to be made available. To that extent I say the issue of the emergency currency is managed.

12171 Do you know of any currency that is not managed in that sense? Not by the bank which may possibly under certain circumstances be the chief factor in the discount market. They are themselves in the discount market. I think all other banks are not actually engaged in discount.

12172 Let me put it in another way. Can you tell me a single currency system in which the true commercial bill is not for the most part the basis?—I should say the English system before the war the Bank of England.

12173 Because the Bank of England can only issue on the security of 100 per cent gold?—That is the point?—After the authorized limit

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[Continued]

12174 But is it not a fact that the currency in this country which expands and contracts is not the note but the cheque? Of course, the use of cheques does save the currency

12175 No, it is currency, I put it to you!—It is currency, yes

12176 Is it not a fact that expansion and contraction in this country takes place through what is called the cheque currency?—The cheque currency merely helps the added velocity of the liquidation of debts

12177 Well, would you agree that it increases the volume of currency in the country?—Yes, it does away with the lag that would happen if there were only currency notes or gold in payment of debts

12178 You do not agree that it is an addition to the currency?—Yes, if it did not exist more currency would be needed, because there would be a greater lag and longer time taken to pay off debts and notes floating before coming back from circulation

12179 Therefore you would agree, I take it, that the cheque currency amplifies the currency in the form of notes and coin?—That is so

12180 What is this cheque currency based on?—On opening credits with the bank

12181 On the opening of credits, and incidentally also bills of exchange?—That is so

12182 The most favoured form of credit instrument?—That is so

12183 An instrument which, if there is need will migrate into the Bank of England, create credit balances there in favour of the rediscounting Joint Stock Bank, and thus enable it to increase the amount of credit it can grant, hence the larger amount of cheque currency?—That is so

12184 Do you now agree that in England expansion and contraction take place on the security of commercial bills?—I do

12185 What other system is there which does not have its expansion and contraction on commercial bills? Do you know of any other country?—Pardon me, we are talking about the expansion and contraction of the note issue, not currency. I am not aware of the cheque system elsewhere

12186 Is there any difference between a note which acts as money and a cheque which acts as money?—There is a considerable difference

12187 What is the difference?—Cheques are not money. They are not generally looked upon as money. No one keeps them in their pocket

12188 But they are the medium of exchanging goods?—And banks do not lay out their credit on the basis of the quantity of cheques they hold. Banks control their credit by the amount of cash they hold

12189 I have just tried to show that the amount of cash held by the Joint Stock Banks at the Bank of England forms the basis of credit of the Joint Stock Banks?—Yes

12190 And, therefore, forms the basis of the volume of cheque currency?—Of the cheque currency, yes

12191 You are probably aware of the currency system which was in force in America before the Federal Reserve Act came into being?—Yes, broadly, but not in detail

12192 You are also aware that it was mainly the 1907 crisis which led to a change in the system?—Yes

12193 And that the system to-day is largely a note issue based upon gold and commercial bills?—That is so

12194 So that America found, after a great many years' experience and a great many crises, that a currency which is not based on commercial bills is less desirable than one based on commercial bills?—Of course the Federal Reserve system has got its advantages. It has not been quite proved or tested so far. There have been certain bank crises in America

12195 Since the formation of the Federal Reserve Bank?—Yes. In 1923 a big number of banks in the North West of America went bankrupt

12196 But there was no general suspension, such as you had in 1907, was there?—I believe in one portion of America something like 500 banks went bankrupt

12197 Taking the other great trading nations, on what are their currency systems based?—France, Germany and Italy? It is the same system, is not it?—Yes

12198 You would agree therefore that a system such as you propose would be rather an exception to the general rule?—Well, we had the system more or less in operation in India before the war

12199 But we have had it in evidence that it is a system which led to a great hardship in India, because of the widely fluctuating money rates between the slack season and the busy season?—But the high seasonal rate did not add very much to the average yearly rate

12200 There was a very severe banking crisis in 1913 in India?—Yes

12201 I understand something like 63 banks had to close down. Did that banking crisis coincide with a good or a bad harvest?—For the moment I am afraid I cannot say

12202 (Sir Henry Strachey) I have the figures here which show that the year 1913-14 was a particularly good season

12203 (Sir Maneckji Dadabhai) Throughout your written statement you have complained about the competition of the Imperial Bank of India and the defenceless position of the indigenous banks. In answer to our Chairman you also stated, or rather showed the disparity in circumstances between the Imperial Bank and the other banks by pointing out that the Imperial Bank of India has paid large dividends, carried large sums of money to reserve and also pension funds. Before the Imperial Bank of India was formed the three Presidency Banks were doing the same business. Did not the phenomena to which you now refer mark the work of those individual banks? In other words those three Presidency Banks used to pay large dividends, carry large sums of money to reserve and to pension funds, etc., and in other directions also were competing with the indigenous banks? Is not that the fact?—That is so

12204 Do you think then that the amalgamation of the three banks has in any other way substantially prejudiced the position of the indigenous banks?—They have opened up competition now on a greater number of points. They are competing at a greater number of points

12205 Is not that due to the increasing trade and commerce in the country and to the facilities which have been afforded in the way of transport and in other directions?—The transport of specie to these points?

12206 Yes?—That would have helped

12207 Then it is the general spread of competition of which you are now complaining?—Yes, of the State bank

12208 When the Imperial Bank of India Bill was before the Assembly, opinions were invited by the Government of India and copies of the Bill were extensively circulated. Did your bank offer any opposition to the amalgamation scheme?—No

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[Continued]

12240 Could not we make a small beginning with the Imperial Bank which might in the fulness of time, develop into a central bank or State bank? I have no doubt it would be feasible.

12241 Then in paragraph 5 you refer to the favourable position in which the Imperial Bank of India is put in not disclosing its loans to its directors as well as guarantors, and to partners and directors of firms and companies. You are aware that these clauses in the Indian Companies Act were inserted after the crisis in 1913, where it was found that most of the banks had lent large sums of money to their directors and agents and companies on insufficient security?—I did not know that that was the primary reason for this clause.

12242 You are not aware of it?—Not that that was the primary reason.

12243 Do not you know of the famous Punjab case? It was done on account of the scandalous state of things which existed and which the Government found out in 1913?—It may be. I have nothing in my knowledge to show what were the reasons the Government had for bringing out this statute.

12244 Did the private indigenous banks protest against this and say that this clause ought not to be inserted?—No.

12245 Do you dislike it?—No.

12246 You do not dislike this provision?—No.

12247 You approve of it?—I do.

12248 Do not you think in the case of the Imperial Bank of India the very fact that the managing Governors are appointed by the Governor General in Council and four other Governors are appointed on behalf of the Government to look after the interests of the Government is an adequate provision?—I have no doubt it is an adequate provision.

12249 In paragraph 13 you say "No definite benefit would accrue to the community through the transfer and control of the management of the currency to the Imperial Bank of India." I understand that you take up your position on a dual ground—both as against the Imperial Bank, and also that there would be no benefit to the community?—That is so.

12250 Then later on you say that there would be a distinct loss to the banking community if the Government ceased to control currency. In what shape would the loss be?—In handing over the currency to the competing bank.

12251 How would it affect the pecuniary interests of the other banks?—Well, we will suppose at one office, at Lucknow, let us say, there is a demand for 100-rupee currency notes, and the banks have to go to the Imperial Bank to get that species of note. Supposing their constituents want to make remittances to the districts, say, of Gwalior for grain, the Imperial Bank might hand out 10-rupee currency notes and say "We have no 100-rupee notes at the moment," and yet their customers going there would be supplied with 100-rupee notes.

12252 You mean they would show favour to their own customers in preference to the customers of other banks?—Being a competing bank a situation such as that might arise.

12253 In paragraph 17 you say "The Imperial Bank should be regulated by the demand for money, or, in other words, by the supply of loanable banking funds in India. Artificial measures for controlling the bank rate should not be resorted to." What artificial measures have you in contemplation?—The issue of 8 crores of currency at a bank rate of 6 per cent—finding an emergency in a demand for money when the bank rate goes to 6 per cent.

12254 That is what you contemplate?—Yes.

12255 You have objected to the methods employed by the Government for supplying seasonal currency and you have stated that the proper method should be foreign loans, and also getting money out of the hoards. I do not want to put too many questions on that point as my friend Sir Purshotamdas Thakurdas has already questioned you on that point, but I would like to put to you one or two questions in connection with it. Before the Government of India passed the Act enabling the amount to be raised to 12 crores there were many tight times in Bombay and Calcutta, and periods when emergency currency was needed. Did your indigenous banks at that time get capital out from foreign countries to relieve the situation in Bombay and Calcutta?—No, we had no access to it.

12256 You did not do it?—We did not.

12257 Did the money then come out from the hoards at that time?—I should say yes.

12258 What is the basis of your opinion?—A good deal of hoarded money did come out at the attractive rates and was placed on deposit.

12259 Was that money sufficient to tide over the difficulty?—No.

12260 Then in face of the fact that in previous emergencies sufficient loanable foreign capital did not come out, and money from hoards came out in large quantities, was there no justification for this Act and for the measures adopted by the Government?—Of course, the conditions of exchange were such as not to make it attractive for money from abroad to come into India—the exchange between India and outside countries.

12261 That is a circumstance which may happen at any time, is not it—the state of exchange?—Unless the Indian currency is brought into relation with the outside and on a common basis with the outside monetary currencies.

12262 Would it be safe to have things at that state?—Provided arrangements were made for bringing the rupee into relation with international currencies.

12263 (Sir Alexander Murray.) I do not quite understand the reasons you give for your reluctance in approaching the Imperial Bank in the event of your requiring assistance. Fortunately you never required to approach the Imperial Bank for assistance, I take it?—I would not say "fortunately." It was part of our policy not to do so.

12264 As far as I know, it is the practice for banks generally in India to come to the Imperial Bank, and the advances given by the Imperial Bank to banks generally at times have reached about 10 crores of rupees. Why do you act differently from the other big banks in India in that respect?—Simply for the reason that in 1913 we got a lesson when a rumour to our discredit was about that we had asked for assistance from the Imperial Bank.

12265 Times have changed since then?—Yes.

12266 I see from this publication you are affiliated to the P & O Bank?—That is so.

12267 I take it if you required assistance you would go to the P & O Bank?—I prefer not to answer that question.

12268 Coming to the question of branch banks, I have figures here which show that out of some 53 branches that were opened up to the latter part of last year only 12 out of those 53 were opened at places where there was competition with the Allahabad Bank. Really of those 12 4 of them were to take the place of the Alliance Bank failures so that in fact we have the Imperial Bank only opening at 8 places where the Allahabad Bank has been in competition. Do you

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[Continued]

consider it unreasonable, seeing they have opened about 100 branches that they should have opened in 8 or 9 places that you are competing at?—I accept your figures, but I think they are rather larger.

12269 I have drawn my information from the evidence given to us by one of the Governors of the Imperial Bank?—Then I will accept it, of course, but the Alliance Bank officers are rather a large proportion of the 12 points added to the points where the Imperial Bank was. Of those 12 points I forget how many branches there were alongside us before.

12270 Is not it the case that one of the main purposes for which the Imperial Bank was formed was with a view of encouraging the banking habit in India?—That is so.

12271 We have had it given to us in evidence that in the case of those 88 branches the sums received on deposit amounted to 8 crores, whereas the advances only amounted in those particular branches to 3½ crores, so that we have a surplus of 4½ crores drawn from people at places where these new branches have been opened. Is not it a natural assumption that had the Imperial Bank not gone there that money would not have been drawn in?—No, some of it was drawn from us.

12272. Why should the Imperial Bank have been able to draw it from you?—They are the Government Bankers.

12273. I think you indicated in connection with your statement about Government banks that the major portion or a considerable portion of the deposits of the Imperial Bank, was money not borrowed at the market rates?—A good deal of it.

12274 According to the published returns that I have here—I have the annual figures in front of me—the Imperial Bank has been in existence for five years and on the 31st December the average Government deposits in those five years were only 8½ crores, whereas the private deposits in the Imperial Bank amounted to over 70 crores on the average?—Do you happen to have the figures for the 31st March?

12275 I have not got them here. I have only taken those from the published figures and I am giving you the average figure at the 31st December but on the 31st March I would say it is much larger?—Very much larger.

12276 Even allowing for its being much larger, there is a wide discrepancy between 8 crores and 70 crores. Do you think that is sufficient to justify the statement in the earlier part of your evidence that the major portion of the Bank's money was not borrowed?—I do not think so.

12277 I think you said that in reply to the Chairman? May I have the reference to that?

12278 You said the major portion or a considerable portion?—Yes, considerable portion.

12279 I think you used both words?—Did I use the word "major"? Then I must have corrected myself.

12280 Is not it the case now that the Imperial Bank gives all the other banks the facility of remitting from point to point at half?—I believe so.

12281 And they charge the public for the same privilege with?—Not in all cases.

12282 I think so?—No, they were charging the public and for remittances to Bombay before this rule.

12283 Not the public, but the banks?—I think it was a case of the public but I cannot speak on that point.

12284 I put it to you the practice is and for the banks, and with for the public, which gives the banks an advantage of half against the general public?—I understood that the remittances to Bombay were charged and generally.

12285 (Chairman) The reduction is for banks only.

12286 (Sir Alexander Murray) And is for the banks only, and with for the public. The views you have been expressing regarding the privileges of the Imperial Bank as compared with the indigenous banks are views which are very largely held in India. You are really only voicing opinions which are not only the opinions of the Allahabad Bank, but of the exchange banks and other banks and of the public generally?—No, I think I am voicing an opinion from my own experience.

12287 You are voicing their general views?—I more or less put these same points to the Government two years ago.

12288 Are these views not coloured to some extent by the fact that the Imperial Bank is, in a sense, competing against the established banks in certain ways?—It is a new concern competing against established banks?—I do not think it is generally thought that the Imperial Bank is a new bank.

12289 In reading up these matters I find that when the Reserve Bank for South Africa was started there was a general reluctance on the part of other banks to make use of it on the ground that it was competing with them. Similarly, when the Federal Reserve Bank was started in the United States there was a general reluctance on the part of the other commercial banks to have anything to do with it. Is not it likely it is the same feeling which exists with regard to the Imperial Bank?—No. You have the Imperial Bank coming down into the market and competing with you on every item of business. I do not know what the Federal Bank of the United States does or what the Central Bank of South Africa does.

12290 (Chairman) We are very much obliged to you for your very full assistance to-day.

(The witness withdrew.)

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Mr M M S GURRAY CSI CIE

[Continued

## THIRTY-SIXTH DAY.

Wednesday, March 17th, 1926.

## PRESENT

SIR REGINALD MANT, KCIE, CSI (in the Chair)

SIR RAJENDRANATH MOOKERJEE, KCIE, KCVO  
 SIR NORCOT HASTINGS YEELES WARREN, KCIE  
 SIR MANECKJI RAMJI DADASHOY, KCIE  
 SIR HENRY STRAKOSCH, KBE  
 SIR ALEXANDER ROBERTSON, MURRAY, CBE

SIR PRASHOTAMDAS THAKURDAS, CIE, MBE,  
 M.L.A.  
 PROFESSOR JAHANGIR COOPERJEE COYAJEE  
 MR WILLIAM EDWARD PRESTON  
 MR G H BAXTER } (Secretaries)  
 MR A AYANGAR }

Mr M M S GURRAY, CSI, CIE, called and examined

12291 (Chairman Sir Reginald Mant) For the sake of our records will you give us a short account of your connection with financial matters in India?—I was Controller of Currency from 1916 till the end of 1918.

12292 And you were also for some time Secretary in the Finance Department?—For six or seven months in 1920 I officiated previously as Financial Secretary, and I retired from the Indian Civil Service in April, 1921.

12293 You are now General Manager and a Director of the P & C Banking Corporation, London?—Yes.

12294 You have given us a note\* of the points on which you wish to tender yourself for oral examination. Is that intended to be exhaustive, or would you be prepared to answer other questions on the schemes which have been submitted to you?—I thought that if it was permissible to travel beyond the particular points covered by the supplementary list of questions, it would be advisable to bring forward some points, in addition to those covered by the supplementary list, on which I considered my evidence might be of some service to the Commission. I do not mean to say that these are in any way exhaustive. I was in a little difficulty, as I was not quite certain to what extent the questions originally circulated in India were to be regarded as superseded by the list of supplementary questions which I received. On many of the questions in that supplementary list I felt I could not give anything more than a sort of general opinion, but I am perfectly willing to answer those questions if the Commission wish to have my views on them. More particularly with reference to the paper entitled "Proposed scheme for a gold standard for India," there appeared to me to be certain underlying and almost fundamental issues on which, from my experience on the official side and since I have left the service of the Government of India, I thought I could offer some evidence which the Commission might regard as of some value. For that purpose I drew up what I thought would be the main issues arising from that paper, simply and purely as a basis for discussion, but by no means as suggesting that I was not prepared to answer other questions.

12295 We will begin with the note which you have submitted. There are several questions arising out of that which I should like to put to

you. In paragraph 2 you express the view that the Government authorities would probably wish to reduce their responsibility and their intervention in the management of the currency. Do you hold that it would be to the public advantage that they should do so? To what do you attribute that inclination to which you refer in this paragraph?—I hope I may be pardoned if I say that I think the service which was given to India by the official authorities was the cheapest and the most efficient service of which I can conceive. I hope I may be allowed, in order to illustrate the point I make about the cheapest service, to refer to an incident which occurred in the course of my service in India when Sir William Meyer, Sir James Brunyate and myself went down to discuss financial problems. We met the three Presidency Banks' Secretaries, as they were then, and Sir William afterwards came and said to me "I imagine that we three put together receive in emoluments probably a third less than the three gentlemen whom we have had the pleasure of meeting to-day, to say nothing of any added amenities which attach to their important posts." That was only one function of the Finance Department, namely, the administration of the currency and exchange systems. There was a whole heap of others. The point I wish to make on this question of Government intervention and responsibility is the almost complete inability of the Finance Department to justify their action publicly. This could only be done by official communiques, and very often, if I may be allowed to say so, the views that we were required to suggest were views which at the moment did not commend themselves to us but which had been imposed upon us in some other way. The main thing in regard to Government intervention in exchange and currency is that at some stage or other the personality of the authority who decides these things is the ultimate factor. Occasionally you have the personality over here. At other times you have the personality of some authority on the other side. Naturally when it comes to a case of exercising judgment somebody must definitely have the last word. I personally felt that if there could be some system introduced by which a Government officer however high should not have definitely to decide these matters and that if things could be left as far as possible to be settled by a system which everybody would understand as working automatically under certain conditions arising, a good deal of that



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Mr M N S GUPTA, CSI, CIE.

[Continued]

feeling which it had in the Finance Department would disappear. I have particularly in mind such questions as sales of councils and the setting in operation of the reserve councils. Another thing I have in mind is the question of determining how far gold should be encouraged to come to India, and how far the currency should be added to by the purchase of sterling securities. It is within the recollection of individual members of the Commission that prior to the Chamberlain Commission there was a whole body of opinion in India which suggested that action was being taken, or had been taken, to prevent the flow of gold to India in settlement of her favourable trade balances. That is what I had in mind when I suggested in that sentence that the probabilities are that the Government authorities themselves wish to see their intervention in exchange reduced to a minimum. As I say, I think it was the cheapest system, and I believe it was an efficient system. I am quite certain it was a system which was worked deliberately with reference to the best considerations of the country without any arrière pensée, and without any reservations of any kind.

12202 (Sir Purnanandas Thakurdas) By "the country" you mean India?—I do.

12203 (Chairman, Sir Reginald Mant) In paragraph 3 of your note you observe that the Indian Departmental memoranda contemplate two radical changes in the Indian financial system. The first is the reduction in the status of the silver rupee. Are you in favour of that proposal either immediately or eventually?—I certainly do not in the least favour any proposal to discredit the silver rupee as the Indian financial system is now constructed. I do not know how long it will take but I think ultimately we must hope to see a change in the habits of the people (I am talking of the currency and banking habits of the people) which will make them realise that the silver rupee is nothing more than a token coin. At present it is not so and I do not see it possible within quite a number of years until their habits have been altered to throw any discredit of any kind on the silver rupee.

12204 Your view, I take it, is that the currency note must, for a considerable time to come, remain convertible into metallic coin?—Yes.

12205 Would you say either silver or gold?—I should say either silver or gold at the option of Government in regard to gold for the time being. But ultimately I should like to see a system under which the rupee would be convertible into silver or gold coin, and when the acceptability of the rupee as convertible into gold coin is well established I think that the stage of passing to the alteration of the character of the rupee as full legal tender could be safely entered upon. I put that in paragraph 5 and I say "A gold coin in internal circulation and commonly acceptable is an essential preliminary to the proposed reduction of the status of the silver rupee." I put in the words "and commonly acceptable" because I am quite convinced unless conditions in India have changed very materially in the last five years since I have been away that there are whole areas in India where a gold coin would not be acceptable. There will be a number of isolated areas in India where while it might be commonly acceptable it would be useless from the point of view of the daily requirements of the people.

12206 It would be too large a unit?—It would be too large a unit because conceivably we could not put into circulation a coin as small as one gold rupee. It would be a useless coin. I base this on the experience I had during the war, when we were faced with the possibility of not being

able to issue silver rupees, in which case we should have then been left with nothing smaller for the ordinary monetary requirements of the people than a five rupee note, and we would then have been faced with the impossibility of providing the country with the change required.

12207 Going back to that time, was there ever any difficulty in getting gold coins accepted? You refer to it being commonly acceptable. My recollection of that time is that gold coins were readily accepted?—I would not like to say that they were not readily accepted. They certainly were readily accepted, but the demand for their exchange into subsidiary coins was always present. The gold coin was accepted, but it was once set up a demand—I do not say for anything like the full amount of gold coins thus put into circulation—for subsidiary coins. You had to back the gold coin up in some sort of way even where everybody took it without any demur. You had to back it up by the provision of other currency.

12208 I take it your view is that there will always be a considerable demand for rupees. They will always be required as the small current coin?—Yes.

12209 But that demand might be reduced to some extent by the circulation of gold coins?—Yes. Also I think the demand for the silver rupee might be reduced if you had a smaller note—if you had a one rupee note.

12210 Do you think it desirable to introduce a gold coin into circulation in order to stimulate the circulation of gold as currency in India?—At the present moment?

12211 At the present moment, or as a permanent policy?—At the present moment, I do not think it is possible. Ultimately I think it would be in itself not necessarily desirable. There would arise, and there is a demand at the present moment, not necessarily based on economic or other grounds, that there should be a gold coin, and I think that demand will have to be met.

12212 Let us take one step at a time. You said at present it would not be possible. Will you explain on what grounds it would not be possible?—Because I think the immediately present requirement of the Indian currency system is that the gold backing in the reserves should be strengthened, that there should be certain changes made in the character of the reserves so that gold would be more largely present there than it is at the present moment.

12213 You mean that all the available gold is more urgently required for the reserve than for circulation?—That is so.

12214 Is that the only reason why you say it would not be possible at present?—No. I think it is quite clear, too, that the general conditions outside India make it impossible to conceive of gold being available in sufficient quantities for the three purposes for which India would be taking gold under the conditions which you postulate, the ordinary normal condition being in payment of her balance of trade, the other special condition being the strengthening of the reserve and the third being for the purpose of putting gold into circulation.

12215 To pass on to the time when possibly sufficient gold may be available would you then consider it desirable to introduce a gold currency?—Personally, I do not want to see myself as a user of gold coin but I think the people of India do wish to see themselves as users of gold coin, and you have to take that into account. If it were not for that factor I should say, no, but I do think that one has to meet in currency

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[Continued]

requirements, what people want and not what one thinks they should have

12310 You do not consider it economically advantageous?—Oh, no

12311 But you would supply it to meet the popular demand?—That is the whole point. As I see it the currency habit of any country, is very analogous to the religious habits of a people. You cannot change their habits by saying that this is a wrong habit and that therefore some other habit should take its place. I think they will have gradually to learn and appreciate it for themselves. The one outstanding lesson which the war impressed upon me in regard to currency matters was that any change in the currency habits of the people of India could only come about slowly and spontaneously from within, and should not be forced upon them from without

12312 Holding those views I take it you would not take any step such as is contemplated in the Finance Department's memoranda to stimulate the desire for gold?—No

12313 You would not reduce the legal tender of the rupee?—Certainly not. I would not do anything whatever which would indicate that the status of the silver rupee is going to be altered. If so I can conceive that a very confused state of affairs will arise. If there were any suggestion that in the course of a certain number of years Government definitely meant to reduce the character of the silver rupee from being a full legal tender coin I do not quite see what would happen. I have attempted to visualise it so far as my own particular sphere of activities is concerned at the present moment and it seems to me that the first thing which one would do would be to say that one must not hold any rupees at all as, at some time or another, by Government action or in some sort of way the rupee would cease to be useful. You would therefore just keep the bare medium required for daily requirements. The same thing I take it would operate with other people. You would not want to be caught with a stock of rupees which were no longer full legal tender

12314 You mean there would be a large return of rupees to the currency reserve?—I should think so

12315 The policy you advocate I understand is gradually to introduce gold to let the circulation increase by natural processes and let the sovereign or the gold mohur circulate with the rupee and be equal legal tender?—Side by side

12316 Would it be advisable to make the note convertible into either gold or silver?—I think Government, or whoever is responsible for the note issue must necessarily have to reserve the right of paying out gold or silver because I do not fancy there will be enough gold to meet possible demands for encashment in gold, but where it would be possible to issue gold I should like to see a free issue on demand by the public for gold coin in exchange for notes

12317 That is if the public wanted it?—If the public wanted it. We are only talking at this stage with reference to the internal use of gold for the convertibility of the rupee internally. We are not discussing the convertibility of the rupee into gold externally

12318 Not?—Internally I feel that you cannot improve on the policy which Sir William Meyer introduced namely, of giving free convertibility of notes everywhere into coin and I would go further and say that if there was a demand for gold I would like to see that met as much as possible, consistent with the requirements of gold for other purposes connected with the stability of the currency system

12319 My question was whether Government should have the right to give gold instead of silver in exchange for notes, if it wished to do so. At present I think the note is only convertible into rupees?—Yes

12320 The question I want you to answer is whether you would recommend that the note should be convertible into either gold or rupees?—You mean a legal obligation?

12321 Yes?—Not quite yet

12322 At the option of the Government?—If you put in at the option of the Government, yes. At the option of the Government I would be prepared to go to that point

12323 That would leave the Government free as its gold resources increased, to cash notes more freely in gold?—That is right

12324 Now we come on to the other radical change to which you refer in paragraph 3 of your note. You say, "So long as the note is that of the Government and not of a bank impartiality can generally be expected from those whose function it is to manage its issue." You are referring there I take it, to the possibility of the note issue being made over to a bank such as the present Imperial Bank which conducts commercial business?—That is right

12325 Supposing the note issue were made over to a true central bank would that objection of your hold good?—No, I do not think it would hold good to anything like the same extent. It probably would not hold good at all, but I had not concerned conditions of any other issue than those which were postulated in the preamble to the memorandum which was that the management of the note issue would be in the hands of the Imperial Bank as at present constituted

12326 Quite so. That was contemplated in the memorandum?—The first sentence says "based on those assumptions." Supposing we were, for the purposes of the present talk, to use the term "a bank of issue" without defining how that bank of issue was to function in relation to the Imperial Bank, and assuming it was not a bank engaged in commercial functions and supposing we had a note issue of such a bank of issue the conditions of impartiality to which I refer in paragraph 6 would I think be expected of such a bank of issue. I ought to put in a caveat at this stage that if the bank of issue was to take over all the multiplicity of points at which notes are to be exchanged for coin, or coin for notes and all the questions connected with the management of a note issue it would require an enormous staff and it would be represented almost at every point where Government are already represented. Also wherever there is a Treasury under present conditions the Imperial Bank is already represented at most of these points through its branches. The function of that bank of issue would be limited at these points to the provision of local currency requirements. There would thus be a superimposition of another institution on top of the Government offices and of existing institutions

12327 Do you think it would be necessary for a central bank of us to have offices at all places where at present there are Treasuries? I confess I have not worked out in detail because it is quite a new suggestion to me within the last two or three weeks—how the bank of issue could operate in the up-country centres. If other people are to act as its agents—if existing banks for instance the Imperial Bank were to act as agents for the supply of currency notes then we should have to look at the question in another way. If the Government currency offices are to be maintained and their character altered to the currency

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offices of the bank of issue, the business at those particular points could not possibly be remunerative to the bank of issue.

12328. Are you referring to currency offices only, or to currency chests?—To chests, as well.

12329. Because the currency offices are comparatively small in number?—The names have been altered but the facilities for obtaining currency are still available, only under a different name.

12330. That would require thinking out?—I only want to put in a caveat at this point with regard to a bank of issue, namely, that in its functions as a provider of currency at up-country centres that function could not be expected to be very remunerative.

12331. Probably the obligation would have to be undertaken in return for the privilege of issuing notes, which would in itself be very remunerative?—Yes.

12332. You say that a bank note would require a larger metallic cover than a Government note?—My point is that it could not rest on a smaller metallic basis. I meant that with reference to the suggestion which I see in what I hear you describe as the Finance Department memorandum. I put that point in with reference to the suggestion that the cover for the note issue could be as low as 20 per cent.

12333. On payment of a tax?—On payment of a tax, and the general contemplation is that it should be 20 per cent.

12334. You consider that to be too low for safety?—I think that is inadequate.

12335. What is your view as to the possibility of a bank note being readily acceptable in India, provided there is sufficient metallic backing?—Would it in your view circulate as freely as a Government note?—I should have said no from my experience. I think it will ultimately circulate but I think at first there must be questions asked.

12336. It would take a little time to establish it?—I think so.

12337. Then what would be the result of that—a larger hoarding of metallic currency?—I should have said that that would be the probable consequence.

12338. In paragraph 6 of your note you say that the admissibility as fiduciary cover for the note issue whether Government or bank note, of internal trade bills appears to you to be questionable. You say that the primary objective should be to attract gold to the Indian currency. Is that the only reason why you question the policy of issuing notes on the security of internal trade bills?—No. That is not the whole of my objection. My objection is implied in the two sentences which follow.

12339. That is with reference to the Imperial Bank purchasing the bills?—That is one aspect of it. The other aspect of it is that I never have seen in India a sufficiency of internal trade bills which I should like to accept as cover for a fiduciary issue. I do not say they do not exist in limited quantities but I do not think that they exist in anything like the sufficiency required. The bulk of Indian merchant business is done on the basis of cash credits that is to say, on running overdrafts the amount of which will vary from day to day and not by the making of bills. Bills can be drawn against specified quantities of goods when these goods are to come into a country or when they go out of a country or when any goods have been manufactured and have been purchased internally and the purchaser wishes to defer payment for any legitimate reason whatever. But financial habits in India do not end themselves to the making of internal bills.

A merchant house which is about to buy raw material for the purposes of export, prefers—and I can quite understand it—to come to some arrangement with their banker on the basis that during a specified period they will need accommodation, say, to the extent of 25 or 30 lakhs as the maximum at any moment for their outstanding overdraft, but on Monday they may be 20 lakhs overdrawn, on Tuesday they may be 15 lakhs and on Wednesday they may be 22 lakhs. This is a much cheaper form of finance from their point of view. Besides I do not see how a man can begin to draw his bill. Supposing that he is a purchaser of cotton in Bombay from somewhere in the Gujarat he cannot be drawn on by the cultivator for the amount of cotton which he proposes to buy assuming he has settled the price. His method of operation is to send, in the crudest form, a sufficiency of notes or silver coin. He goes round and buys what he can, here and there, from either the cultivator direct or through some intermediary. He cannot make a bill in that case under those conditions. That is why I doubt whether there is a sufficiency of those bills in India to justify our being able to say with confidence that they are available for fiduciary cover.

12340. Do not you think it possible that the practice may change in that respect, and that the supply of bills may increase?—As yet I can not quite see it. I have endeavoured to see it, but I cannot see the change yet, because you have not got in India a whole heap of intermediary links which exist in this country. You have not got accepting houses. You have not got the possibility of drawing against the goods to be supplied or on the purchaser of goods.

12341. Let us pass to the alternative system which you recommend. You say that the primary objective is to direct gold into the Indian currency. Supposing that instead of increasing the currency note issue against bills we were to force imports of gold into the country, would not that gold have to be sent out again in the slack season?—I think it is very probable. Some of it would. I do not say all, but some of it would.

12342. What would happen to the rest. Do you think it would go into currency or go underground?—I contemplate it remaining in the currency.

12343. In the currency reserve?—In the currency reserve. I can see that the reflow of funds back from up-country during the slack season would be checked by a certain amount of the currency gold going back from out of India.

12344. You recognise that the system of expanding the currency on the security of bills provides for automatic contraction of it again as the bills mature?—That is the theory of it and I can say that we in the Finance Department in 1918 and 1919 were extraordinarily attracted by it. We saw the system referred to in America. We saw it working there and if you would care to do the old Finance Department the honour of referring to the memorandum which we sent, and which is, I think, among the papers of the Babington Smith Committee you will find the joint product of the three of us who worked on this idea. We were very much attracted by it. I do not know how far this is relevant, but at any rate it is of interest. When it came up for examination in the Babington Smith Committee, those on that Committee who had had practical experience of bill business said 'It is not by any means so easy but let us have a shot at it.' That is really what it came to. We put it on the Babington-Smith Committee on the basis that it should be against export bills, and if

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internal bills could be connected with actual commodities they also should be connected, but we have had experience of it now practically, and we know quite well that whatever may be said about the bills they were bills which were forced to be made for the purpose of providing cover—I do not say to the whole extent, but to a certain extent.

12343 But the currency actually was contracted?—Yes, the currency was contracted, not because the bills had paid themselves off but because there was a reflow of currency from other sources.

12344 How would the currency be contracted if the expansion were based on imports of gold? You say that only a certain amount of it would be re-exported?—Yes, it would entirely depend on the character of the season and the differences of money rates between India and elsewhere. All that would tend to send gold out or keep gold in. Last year—and Sir Norcott Warren will agree with me in this—there were quite long periods in the slack season when money was unobtainable in India. If you got  $\frac{1}{2}$  per cent or  $\frac{3}{4}$  per cent for money you thought you were very lucky. There was no means of getting that money away. It might have been used elsewhere but there was no means of getting that money away except by everybody doing the same kind of exchange operation, that is to say, of buying gold exchange ready and selling forward gold exchange so as to bring it back at a later time. The result was that a good deal of money there remained absolutely idle. If there had been a possibility of physically contracting the basis of the currency and of being certain of being able to bring gold back to India when money rates again changed in the other direction, you would have had a natural and automatic contraction when money was in surplus in India, and a re attraction of it to India when money was in demand.

12347 In your last paragraph you refer to the different functions which the Imperial Bank would have to discharge if it took over the note issue, and you suggest that these different functions should be differentiated and that their discharge should be effected not by one single institution, but by separate institutions or agencies. Have you thought out a scheme for differentiating those functions?—In a vague sort of way I contemplate that you would necessarily have to have a central bank of issue. The problem I think must be segregated from the other problems by which the whole of these questions are surrounded. I think we need to go into an investigation of the problem by itself of a central bank who would be charged primarily with the function of endeavouring, by a monetary rate policy, to keep exchange stable with an obligation to buy and to sell gold and also with the duty of holding the ultimate balances of the country, who would not be endeavouring to engage in commercial business excepting in a very limited and liquid way and who would make no attempt to attract deposits by the offer of interest and who would, generally speaking, stand to outside all existing banking institutions (and here I make a point of very great importance) and so outside Government that it could afford to speak to everybody, including the Government with complete impartiality and with complete independence. Its sole function would be the regulation of the financial system of India so far as it was affected by Government operations or by operations by other banks without any consideration at all of the effect of its decisions on matters extraneous to the institution of a sound system of banking in India. Had such a body been in existence at the time when Government proposed that there should be taken into the currency as

cover for the fiduciary issue the internal trade bills of which we have been speaking, I conceive it would have said to Government, 'We will not do it, we do not believe these things exist, we have not found them. If we do find them we will take them in.' I would like to feel that you have an institution out there in India which would be so absolutely strong and independent that it could take up the same attitude towards the Government as we have known the Bank of England here take up, and that it could take up the same attitude towards banking institutions such as the Bank of England takes up here and whose whole business is to keep itself thoroughly and absolutely liquid, and who would not hesitate to haul over the coals any attempt at over trading or over speculation, or the growth of habits inimical to sound banking.

12345 You would make this institution entirely independent of Government?—Yes, entirely independent of Government in its functions and in its operations. I imagine that Government would necessarily have to come in as a shareholder, because I conceive that the reserves of the Government of India—the paper currency reserves and the gold standard reserve—would probably have to go over to it, and therefore necessarily the Government would have to participate in such return as these assets, which would be handed over to them, would earn.

12349 The Government would be a large shareholder?—The Government would be a large shareholder.

12350 Would it have no representation on the governing body?—I should like to see no representation as such.

12351 The largest shareholder would be unrepresented?—The largest shareholder would be unrepresented.

12352 Do you think you could obtain efficient direction and management in India?—I agree with you that that is one of the most serious practical difficulties.

12353 If you cut off the Government from all participation in the direction of the bank, and the Government is not allowed to have anything to do with it?—You have put one of the serious practical difficulties. That is one of the many difficulties which, as I said, surround the question. Strictly speaking, there are only two alternatives which we can consider at the present moment. One is the continuance of the present system under which Government manages exchange and currency. I can see that we can limit to a large extent the exercise of judgment by individual officers of the Finance Department by making certain statutory obligations in regard to some portion of the exchange system, that is to say, you can give it a legal foundation. The other alternative is to set up a central bank, and if your central bank is going to be managed by the Government, or Government is to be represented on it, or the Government is to have a large share in the direction of affairs well I do not think you are doing anything more than making another Government Department and adding to it the control of the monetary policy of India which the Government at the present moment does not control, though it does influence it.

12354 Then we come to this position—that the currency system has been managed in the past by Government with reasonable efficiency but that it would be an advantage to make it over to an independent body. Surely the Government has to satisfy itself before divesting itself of those responsibilities that the body to which it would make them over would be competent to discharge them, and you say that is a difficulty which you

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cannot get over!—I think it is a very serious difficulty

12355 You see my point!—I quite see your point

12356 How is Government to divest itself of these responsibilities unless it is assured that the body that takes them over will be efficient!—I do not see how Government can guarantee that there will be a supply of the human material available now or at all times for the efficient management of a central bank. A risk of that kind is inherent in it. It is a risk which everybody has to face at all times in regard to any enterprise. Under a system where Government continues its present functions Government is taking exactly the same kind of risk under the present system. It relies on the raw material that it recruits, and takes the risk that there will be a reasonable chance of securing from its recruits a proportion of men who will ultimately be capable to assist in the discharge of these functions, it trains men up and so secures it self. I cannot see how one can guarantee that the central bank would be able to obtain immediately and for all time the necessary material. I take it that if there is a demand the supply will come into existence. I know my role here is to answer questions, but I would like to put this question. Assuming that these functions were transferred over to the Central Bank, and assuming you had not got the need in the Government department for men who would put themselves to the study of these questions and endeavour to master them as a purely official ambition, would you have a supply, on the Government side of the necessary material?

12357 You mean that if you have a Central Bank the Finance Department would atrophy!—You know yourself, Mr Chairman that it is less than fifteen years since the office of Controller of Currency was created. Previously it was a function attaching to the Controller and Auditor General. The differentiation took place. I think I am right in saying either in 1913 or 1914, by reason of Government realising that there was a whole series of technical questions for which it was desirable for them to create a small technical department. It was an extremely small department and in its early days of recruitment it was not in any way easy to find suitable men. I can speak from that point of view, because at all times in the Finance Department we looked round about to see whom we could find for the purpose of carrying on. Those are the same problems that are going to face the Central Bank. As I say, if there is a demand for that type of man I take it the supply will come. I do not think in the early years of its existence it can do without recruiting from within the Government department which has made a study of this question, because I think it must, but later on I should hope to see it find its recruitment outside.

12358 (Sir Henry Strakosck) With reference to paragraph 7 of your memorandum you say that the proposal contained in the official memorandum so far as the metallic proportion in the reserve is concerned is inadequate in your view. What metallic ratio would you recommend should be held in the currency reserve to assure the external value of the rupee!—The external value!

12359 Well that is its primary object as it not! A metallic reserve is held to assure the external value of the rupee that is to say its gold value! Without reference to its internal convertibility!

12360 The two go together do they not? If you make your token coin convertible into gold

for that purpose the reserve is there, and you will be assuring the internal value as well as the external value of the rupee!—To maintain the convertibility of the rupee externally I think requires an entirely different method

12361 Let us look at it in a different way, namely, to stabilise the exchange, which is in fact the same thing!—That is an extraordinarily difficult question. The extent to which seasons in India can vary cannot be measured in terms of percentages. If you have three years in which the balance of trade goes against India, if you want to stabilise exchange on the basis of the metallic proportion in the currency, I think you would have to have a full cover

12362 100 per cent cover!—100 per cent cover

12363 On your note! Are you speaking of notes!—My paragraph was with reference to notes.

12364 You would need 100 per cent cover to assure the external value of the notes and the rupees!—If you have got to give out gold both for the purpose of meeting an internal requirement for converting notes into gold, and also—

12365 You had turned down the proposal of the Finance Department to give India a gold currency and make the token money convertible internally into gold. I eliminate that. I am merely trying to get what was in your mind when you said that the proposals of the Finance Department as regards metallic reserve are insufficient. What would you regard as sufficient!—I cannot conceive that we can work on a basis of a metallic proportion to be determined by the possibility of having to meet all the note circulation being required to be turned into gold for the purpose of export.

12366 If you do not care to give a proportion can you give us the minimum total amount of gold to be held in the reserve!—My own feeling about it is that I would like to see a gold note in existence in India with practically a full cover

12367 A full cover—100 per cent gold. I will turn to another subject namely, the commercial bill. You say in paragraph 8 as a reason against having the note issue covered to some extent at any rate by commercial bills that the primary object should be to attract gold into Indian currency. Do you not then contemplate any fiduciary cover!—I should like to see the fiduciary cover, if it were possible so reduced as to represent a minimum quantity and of securities which are purchased off the market—not *ad hoc* securities.

12368 Government securities!—Government securities for which value has, at some time or other been received

12369 You regard that as preferable to the commercial bill!—Yes

12370 But you are probably aware that in none of the central banking systems in existence so far as I know, are Government securities regarded as the most desirable form of fiduciary cover!—Yes, I know that

12371 Why should it be desirable in India when it is not desirable in other countries!—My feeling about that is the conditions are so different.

12372 Your objection is as I think you pointed out to the Chairman that there are not any commercial bills fit to be placed as security behind the notes!—There is not a sufficiency of them to make it worth while to provide for that

12373 But could you not stimulate the drawing of hundis in order to produce a sufficiency of that paper if it is a desirable paper to have!—If the conditions of trading in India were such that

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you could work on a system of bills, and if you had a system of accepting houses and discount houses, and a money market functioning on the basis of three months or four months bills, then I think you could work that into the currency system, but not directly.

12374. But is not a Central Bank's power to discount or re-discount bills fundamental in the establishment of a discount market? Is it not a fact that the discount markets in all the great financial centres rest really upon the possibility of re-discounting with a Central Bank?—I agree that is so.

12375. If that is so, would not the establishment of a central bank, empowered to discount or re-discount bills of a certain character, be helpful to the financial organisation of the country?—I certainly contemplate that should be one of the functions of a Central Bank.

12376. I take it then, in these circumstances, you would be in favour of an eligible commercial bill being put behind the notes, because that is the only way, I take it, by which re-discounting, in tight times, might be effected by the Central Bank?—Yes. The re-discounting of eligible paper in London does not result in an expansion of the note issue, it is done to such a point as it is regarded as safe for the Bank of England in its banking department to reduce its proportion.

12377. But in this country expansion and contraction take place, not in the form of notes, but in the form of cheques?—Yes, I agree that it does that to a large extent, and I would much prefer to see a similar system in India.

12378. You also refer to the difficulty of getting bills, because the purchaser of raw material will not know upon whom to draw. In the ordinary course he would draw upon the person or firm who buys the material from him?—I do not follow that with reference to Indian conditions.

12379. If a purchaser of raw material buys the stuff and sells it to a consumer or manufacturer in India or abroad, he would draw upon that firm?—Yes.

12380. And the bill would in that way be created. If he gets the signature of his bank on it, he would be able to discount it at the Central Bank?—I would like to particularise that question. I am not quite sure I follow it. Let us take the case of a firm who is buying raw jute for the purpose of export. How is the suggestion to be worked?

12381. I take it that the purchaser sells his material almost immediately he has bought it?—Before he buys his raw jute in one of the jute districts he has sold it. You propose that the bill he draws on his purchaser abroad should be taken in as cover?

12382. It would be discounted in the ordinary course?—That bill is not accepted. How could be give it to the Central Bank?

12383. You probably know that there are ways and means of getting over that. There is, for instance, the banker's acceptance. A great deal of the bill business is done by getting a bank to accept?—Yes, but the acceptance would be outside India.

12384. Not necessarily?—Who would accept in India?

12385. Just as any commercial bank gives a cash credit, it would probably be prepared to accept it?—The conditions of business in India are such that the banks finance the export trade by buying these bills. You are now suggesting that the banks should finance by accepting on behalf of the purchaser over here?

12386. Not necessarily, if the bank accept and if there is a discount market, the discount market

would buy these bills. Failing a discount market, probably the bank itself would?—Primarily, these would be sterling bills?

12387. No, I am not thinking of sterling bills. I am thinking of domestic bills?—I do not see where domestic bills are coming in under that scheme, because I understood your suggestion was this—that you have a purchaser of raw jute outside India, you have a purchaser of raw jute inside India, and the purchaser of raw jute inside India wants to go and buy his jute up-country. At the present moment, in order to do that as I have explained, he has an arrangement with his bankers that he can take out so many lakhs of rupees. To put it absolutely in the crudest form, he converts that credit into notes or rupees and he physically has them sent up-country, and there he buys the raw jute. You say that because he has sold in England therefore he can draw a bill instead of getting the necessary notes and rupees by using a cash credit. I suggest that that bill must necessarily be drawn on somebody outside India.

12388. There are jute mills in India that are buying raw material. Is there any objection to the seller drawing on the buyer in India of jute and discounting his bill?—But the mill which buys raw jute buys jute for the purpose of manufacture at its mill into goods, and for that purpose, who is to draw?

12389. I am not speaking of the mill. The mill, as the buyer, owes the money and is therefore the debtor. The creditor has got to draw upon the debtor—not the other way about?—Then is it the up-country seller who has to draw on the mill agent?

12390. Yes. That is the ordinary course in which bills are drawn. The purchaser who is not willing to pay cash is prepared to accept the bill?—I agree, but as I explained to you, under the conditions in India the purchaser of the raw material goes and meets the grower or the producer with bags of rupees and with wads of notes. I have seen it. In the Central Provinces particularly, during the busy cotton season I have seen representatives of three or four of these big exporting houses setting forth before dawn in order to catch the carts bringing in the cotton before they have come to the market, and saying 'There is your cotton, I want to buy it, here are my rupees,' and the chuprassis are behind them with the rupees.

12391. But there are other ways of producing perfectly genuine bills, namely, by drawing upon your bank, the bank agreeing to accept. What I want to put to you is this. Is it not a fact that the great virtue of all central banking systems is that they are, in a sense a place of refuge, in case of an emergency, for other banks?—I agree.

12392. And that the only way of being able to liquidity their assets is by presenting bills to the Central Bank? That is the accepted principle of a centralised system of reserves?—Yes. I quite agree with you that that is the whole theory of it, and, as I said in answer to the Chairman, we were very much attracted by it, but I say that the experience in India has shown that there is not in existence at the present time a sufficiency of that kind of bill which ought to be made cover for further financial facilities. Whether they should not come into existence or should not be called into existence, is another question. I should like to see them called into existence and I say the preliminary to that is the existence of accepting houses and a discount market.

12393. May I ask this? Do you think that the habit of drawing bills can be fostered in India?—If it is cheaper and satisfactory I think you will find it can be, and will be.

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12394 If it is cheaper, you say. Of course, you are aware that the discount rates in other countries are usually far lower than the rates for cash credits?—Yes.

12395 Would not that be an inducement to raise credits, not through an overdraft but through the drawing of bills?—I think that question must be examined with commercial men—as to which of those two methods would suit them from the point of view of efficiency and cheapness.

12396 (Sir Manekji Dadabhai) In paragraph 3 of your memorandum, as well as in answer to questions of the Chairman you laid a great deal of stress on the desirability of not discrediting the silver rupee, and you stated that for quite a number of years the silver rupee must stand as a token coin of the country. Am I to understand that you entertain this view because of the silver rupee being a token coin and there being no other coin to replace it?—Yes, I think that probably puts it.

12397 I have correctly put your situation?—Yes.

12398 Am I to gather from that that if the silver rupee can be reasonably replaced by another coin, a gold coin which is practicable, you would have no objection to the issue of a gold coin?—Yes, if you could get the gold coin functioning in the same way as the silver rupee.

12399 You would have no objection to the gold coin?—If you could do it.

12400 Then you also stated in answer to the Chairman that it is not desirable or possible at present to stimulate the gold coin?—Yes.

12401 All the gold available being more urgently required for the reserves. You know that large quantities of gold have been imported into India particularly during the last few years. If facilities are given for the free coinage of gold coin in India by the establishment of a Mint independently of Government imports would you have any objection to the stimulation of gold currency in that way?—Does that question mean that gold which has gone into India in the form of bullion should be tendered for coinage?

12402 Yes, by the people and that the gold coin would circulate. Would that meet with your requirements?—I do not think that is possible.

12403 Why?—Because it implies that the gold which has gone into India has remained in the same unmanufactured or unused form as it came into India but it has probably been broken up.

12404 Your argument is that it is not possible because it remains in an unmanufactured form?—No. I say it has been used. I say a good deal of it has gone into use in the form of ornaments.

12405 Ornaments in private homes?—It has been broken up. The big bars have been broken up and the small bars have been still further broken up.

12406 But if the people find that it pays them to withdraw it from the boards and underneath the bullion and bring it back to coinage have you any objection to the free coinage of gold currency?—I think you might have then an enormous redundancy of coinage.

12407 You are afraid of a redundancy of currency?—You are bound to get that. You would have an enormous amount. If you felt that there would be a large return of all this gold now in use as ornaments if they were to be stripped off the persons wearing them now and turned into coin there must be a very big redundancy.

12408 But your objection, as I understood you in answer to the Chairman, or your opposition to the gold currency was due to the fact that all available gold ought to go to the Government reserves?—Yes.

12409 And nothing would be available, all going into the Government reserve, for coinage into gold currency?—Yes.

12410 My argument is that if people choose to bring out their gold and put it into current gold coins, or sell it for the purpose of being manufactured into gold coins, the contention which you have now raised has not the same value with regard to the gold currency to day, independently of the Government reserves?—I am only pointing out to you the dangers of what would happen. There is a danger that there would be a tremendous amount of circulation. The circulation would be very vastly increased because your idea is that you want to convert an inert circulation into an active circulation. I do not say that it is a wrong thing or a right thing, but I say you have to consider it on that point.

12411 Redundancy of currency?—I think I have envisaged that possibility.

12412 The people will not bring out their gold bullion unless it pays. They will not do it for fun. They will only do it if it is remunerative, and then, in the circumstances I have put, it is not likely to interfere with the gold reserves of the Government?—It would not interfere with the gold reserves of the Government. I agree, but it would mean a very large addition to the circulation if your premises are right, that the people would be tempted to do so.

12413 Unless it causes a plethora, is it desirable that there should be a large gold currency in India?—I must confess it is such a new suggestion to me that the Government should allow the Mint to mint coins in return for gold bullion in the country tendered for conversion into coins, that I should like to think it over. I had never contemplated that that was a possibility. It does not affect the argument that I have made about the gold going into circulation. Your suggestion is that the people should be allowed to convert what they have now got as inert gold?

12414 What they import hereafter?—That is another question.

12415 That is what I mean—what they import?—If you propose that any gold that they can further import into this country should be turned into gold coin, then I think you impinge on my suggestion because I want to see the gold held in reserve.

12416 You have no objection, then?—I should feel that there was a great deal to be said against it.

12417 For imports?—Yes.

12418 Because in your opinion, that would conflict with the Government reserves?—Yes.

12419 And Government purchases?—Yes.

12420 Is that your view?—It would conflict with the fact that I would like to see the gold in reserve not going into circulation except quietly and slowly at the option of Government.

12421 That is quite true but there is this private competition in the matter of purchases of gold with the Government now going on. How will that affect the situation?—I do not follow you.

12422 People import gold on their own account?—Yes.

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[Continued]

12423 There is no prohibition and no statutory restriction at present on the import of gold into the country for private use?—No

12424 If they choose to do that and tender that to the Mint for the purpose of coinage into gold currency, what objection is there to it?—Then my point about that is that the gold would not then be brought into the country for the purposes of going into the reserve as a backing to the notes

12425 That is your contention?—Yes

12426 (Chairman.) It might help to clear up the point if I called your attention to the report of the Babington Smith Committee of which you were a member?—Yes

12427 In paragraph 67 the report says In order that gold currency may be available when required, it is important to provide facilities in India for the conversion of gold bullion into legal tender coin?—Yes

12428 (Chairman.) They suggest the opening of a gold mint

12429 (Sir Vaseekji Dadaboy.) I knew that but I wanted Mr Gubbay's independent views on the subject You are not opposed to a gold currency, but you have stated that any change must come about slowly, and should not be forced upon the people?—That is right

12430 How will you bring about the desired gold currency if you do not take some sort of action? You want ultimately as I understood you that the gold currency should come into vogue How would it come about? As I understood from your answer to the Chairman your contention was that the gold coin and the silver rupee for a number of years must continue to exist *pari passu*?—That is right and I also said in answer to the Chairman that I would like to see the note convertible into gold or silver at the option of the Government That is the method whereby I would suggest it

12431 Taking the first part of it, how will you now effectuate the desired gold currency in some years unless you take some initiative now?—The primary thing I want to see at the present moment is gold going into India into the reserves so that the currency shall have a larger gold backing than there is at present I do not like the existence in the currency of that balancing figure which we call the *ad hoc* Government securities. I think a stage will certainly be reached if the seasons are favourable when we should feel that we have got a sufficiency of gold to begin this question of circulation of gold in exchange for notes or issue of gold in exchange for notes That is a step which I have in mind It is no very great departure from what there has been in the past It is simply a slow but definite application of methods which we used to adopt before There is nothing spectacular or radical about it In the present condition of affairs I do not like—I cannot explain why very logically—that figure of some 49 crores of securities which represent a figure to cover the deficit between what I call assets in emergency and what are not assets

12432 Till that has actually been replaced by gold you would wait?—Yes I also feel at the present moment there is a possibility of suggesting that there is in Indian currency a certain redundancy and that the circulation is probably a little bit too large I cannot definitely say to what extent but I think the 90 crores of silver will probably be gradually absorbed in the course of the next eight or ten years I should like to see the presence of larger assets of other assets other than the silver ones in the paper currency We have got in it now a fair proportion of sterling securities which are assets and we have also got a certain amount of gold but we have still got that 49 crores which is what I call the

balancing figure I would like to see gold come in until that figure can be reduced I should even like to suggest that it would be a good thing if it were possible to contract the currency so as to bring that 49 crores down to something more reasonable The currency system under which I was brought up was one in which there were I think 12 crores of Government securities I think I am right in saying that they represented securities bought off the market representing assets of value We have gone beyond that under stress of the war and other conditions subsequent to the war and we have now got this gap In other words you can say that if you were to put it in the form of a balance sheet that represents goodwill, and you want to write off your good will

12433 In other words, it comes to this that your opposition is not really to gold currency, but to the way in which it is proposed to be done?—I have never said that I had any opposition to gold coin as the people of India demand it I think they have a right to demand what they want and I think they have a right to see that they get what they want All I object to in this scheme which I have seen here is that it is suggested in order to introduce a gold currency there should be a call on the gold reserve elsewhere not for a fruitful purpose but for a purpose which will be achieved in time and which can be achieved without dislocation at all of other people's arrangements I think it is probably questionable whether one would meet with anything but hostility so to speak to the proposal that there should be borrowings or credits which are physically to be removed in gold and to be ultimately liquidated by selling silver I do not see any point in that scheme which appears to me to have no attractions at all from anybody's point of view—neither from the Indian point of view nor from the point of view of the outside world I think there is no question that such credits as India possesses at the present moment in the international world could be liquidated into gold and nobody would say that you had no right to liquidate them and ship the gold to India But when anybody comes forward and says to the rest of the world "Now we have a scheme whereby we want to slaughter some large quantity some unknown and indeterminate quantity of silver—why? because we want to go on to gold and we want you to assist us to do it what are your terms?" well I imagine those concerned would simply say "We are very sorry but our terms are such that it must cost you a very fabulous amount" I have never opposed the suggestion that we should look to putting gold into circulation in India. It has been the consistent policy of the old Finance Department to give what people require and to attempt to give gold if gold is required but not to force it and not to endeavour to do it at the expense of other people's arrangements

12434 Other people's arrangements will not be affected inasmuch as the scheme is for a gradual dislodgment of the silver in ten years' time? Yes but the dislodgment of the silver is to be preceded by an arrangement—if I have understood it correctly—whereby notice is given or will be implied in any scheme that all the silver that India took is to be replaced by gold. I say if I am a holder in India of silver or rupees or boards of silver rupees, if for instance I were an Indian prince who has silver in his hoards, what is my natural action under such conditions? I should say at some time or other in ten years silver rupees will be no longer legal tender and I must necessarily protect myself

12435 Quite so?—The first result might be that you would have an extraordinary stringency of



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currency and a famine of currency, because everybody would simply throw back all these rupees, if my anticipation is correct and say 'We do not want any rupees. We will take the minimum amount that we need.'

12430. Then the Government have to call back upon the 90 crores in the currency reserve?—I do not know about that 90 crores of the currency reserve because, as I suggested to you some of it might be redundant for the moment.

12437. You do not think that will be sufficient?—I do not know. I am not prepared to give a definite opinion as to what would happen if it were generally known throughout the country miles of India that the silver was going to cease to be of legal tender at some stage or other. I can conceive that it might shock them absolutely into the most desperate methods to protect themselves.

12438. But some quantity of silver coin will always be required for internal circulation?—I say that you would probably have at one stage a famine of currency, followed by very special remedies to meet that famine of currency. Until adjustment had taken place in the people's mind as to what they could afford to lose in the way of silver the first impulse would be to say "Well, let me get rid of my silver."

12440. Those are your apprehensions. You also stated in answer to the Chairman that you would like the issue of gold coin to be made as far as possible at the option of the Government but not as a legal obligation, and you would also like to see sovereigns and gold coins circulate side by side with the rupee. How is this possible? Will you sketch out a scheme by which the Government could issue gold for rupees at their option?—Yes I can give you a very rough outline. Where gold coin is known to be a coin which is acceptable we might begin by putting the gold into circulation there. I would not think for instance of attempting to put gold coin into circulation in parts of India which are known not to use gold and cannot be expected to use gold—for instance in the hill districts and also in the Jute districts in Bengal and possibly in other parts where silver has a more rapid acceptance for some reason or other than gold. In the Punjab and in Gujerat and in parts of Northern India where gold has been readily acceptable I should begin to put the coins out there. You could not definitely mark it out on the map particular sections but you would have experience of the past to go by. There I would endeavour to meet the requirements and to instruct those who are in charge of the function of giving metallic currency out in return for gold to meet the demand for gold if a demand set up for it.

12441. In addition to mapping out circles would you also limit the quantity?—No I would not do any limitation in quantity in the definite sense of saying that there shall be no more than a certain amount of issue but I would say to the extent that you could on a particular day meet all requirements you should meet them and then proceed to replenish yourself from where you can get it. Just as here in the old days if you went to cash a cheque for £50 you would be asked whether you wanted it in notes or in gold.

12442. Would you also go a step further and give the Government an option of giving sovereigns for gold bullion?—You are coming back to the same point that you made before.

12443. Yes!—If ultimately when you have got your reserves strong enough you feel that you could suitably then say that you would like to

receive gold in exchange for gold bullion, and give gold coins out at the Mint in exchange for it, I should be prepared to see that, but I do not regard that at the present moment as a practical possibility.

12443. Just a few questions about the Central Bank. In answer to the Chairman, you have given a picture of the Central Bank that you would like to see exist, and to which all duties would be entrusted, and which would be in a position to work very independently and perform its functions freely in the sole interests of the banking business. It is an ideal with which I quite agree, but you will admit that it is not possible in India for many years to attain this ideal?—Yes I think it is going to be a very slow growth.

12444. What year did you leave the service?—I left in 1920.

12445. As I understand you also had some share in the framing of the Imperial Bank Act?—Yes.

12446. This bank has been in existence for the last five years?—Yes.

12447. And so far has performed its duties very satisfactorily. I am not aware of any serious complaints being made by any bank or any other body of people, that it has not carried on its work very satisfactorily?—Well, I do not want to raise these questions unless you are going to lead me to them but I would like at this stage if you would allow me to do so, just to say this. I say it with very great deference and I hope there will be no misunderstanding in what I am saying at this stage. Sir Norcott Warren will bear me out in what I am saying as regards the origin of the Imperial Bank, because it was he and his two colleagues, who are now dead, who met me at lunch one day during the war, and I was commissioned by Government to put certain facts before them which had come to our knowledge. I said to Sir Norcott Warren to Sir Robert Aitken and to Sir Bernard Hunter that the time appeared to me to have come when it was necessary to consolidate their interests so that there should be no attack on them possible after the war. At that time we did not quite know what the future was going to be in regard to the Imperial Bank. We just necessarily had to work experimentally. I remember very distinctly, and I think Sir Norcott Warren will bear me out that one of the possibilities I had in mind when this was created was that the Finance Department of the Government of India should be strengthened by being able to say in regard to any suggestions on questions of banking or finance or exchange or currency from outside that they had the definitely expressed view not of different institutions, but of one institution which had the control and regulation of the financial arrangements in India. I said to them. It is bound to occur that the Governor and the Managing Governors of the Imperial Bank will have to stand up to the Government if they think that the Government are taking steps which they regard as likely to endanger or to be inimical to the general requirements of the country. I say of that function of the Imperial Bank I have seen no evidence whatever that it has been or is being discharged. That is the only thing I can say with all deference as one of those who conceived the Imperial Bank that it has not discharged that function.

12448. The Imperial Bank has not discharged it?—No because I feel very strongly that on this question of the handis the Imperial Bank should have said to the Government "This is not a right and correct policy."

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12449 Were opportunities given to the Imperial Bank—I am not criticising it

12450 Can you tell me whether such opportunities did come and the Imperial Bank did not use them?—No I cannot say that

12451 I was leading you up to this. A state of absolute perfection is not possible in India; for years to come in securing the existence of a Central Bank in India it is not possible because there are not many private banks in India yet and there is not a network of banks and unless there is a network of banks such a scheme is not possible but have you any objection to entrusting the issue, or working of the note issue to the Imperial Bank as the agent of Government?—I should expect if the Imperial Bank was going to function according to the conception which I had of it when I helped to bring it into existence to find the Governors and Managing Governors reply to the Government on this question thus: 'We will not do this business because it is not right that you should expect us to do it. It is not right from the point of view of India as a whole and from the point of view of the financial interests of the country that we who are engaged in branch banking as a bank of deposit as a custodian of Government balances should take on all these commitments which you are throwing on us.'

12452 Do you think the proper performance of its other duties is in serious conflict with the obligation of carrying out the note issue?—I spent four years in which every day was devoted to just one portion of the many duties which you have in mind. My business was the management of the currency. I found that did tax me quite sufficiently, and I think that nobody will say that my capacity for work was below that of an average man. You asked me that quite frankly, and I tell you quite frankly. I say it is beyond the functions of any one man, or any two men to discharge efficiently what you are endeavouring to put on them. That is on the human side. May I go on?

12453 Certainly!—But as a matter of principle I think the commitments which are to be taken in this direction namely, the management of the paper currency and also of the remittance operations of the Government of India and also of the commitment which is implied in the last sentence in (f) 'The bank to undertake to keep the Secretary of State supplied with funds to meet the sterling charges of Government' are such as in your responsibility to your shareholders you should not undertake them. That is from the point of view of your shareholders. From the point of view of the whole banking system in India I feel there is the gravest danger of insecurity by heaping all functions of this kind on one institution.

12454 I am assuming now that this proposed transfer will also involve taking on bodily the whole of the establishment of the Currency Department and that being controlled by and placed under the Managing Governors of the Imperial Bank. How will that humanly as you say affect the proper execution of those duties?—Well I do not think any Managing Governor of the Imperial Bank would take that additional duty on without the gravest hesitation. The risk would be too great. One or other of them would have to devote himself entirely to these duties and no others or he would have to let the work be done in such a way that he could not justify particular actions or particular policy because he would not have had the time or opportunity to look into it. That is my feeling about that.

12455 I know your views on the subject and I will ask you one or two questions in connection

with this aspect of it. Assuming that the management of the Currency Department is transferred to the Imperial Bank as regards the note issue I would like to have your advice in the matter—especially as you have been long connected and very creditably connected with the Finance Department—whether you would think that this note issue should be in the name of the Government of India or in the name of the bank and if it is issued in the name of the bank whether the credit of the Government would suffer in any way?—We have assumed for the purposes of your question that it has been decided that the Imperial Bank is going to assume responsibility for the management of the note issue?

12456 Yes!—You are not quite certain in your mind whether you wish to make them responsible for the convertibility of the note issue?

12457 No!—Is that a question?

12458 Before it comes to convertibility—If in that case, if the notes are not to be inconvertible and the responsibility for the convertibility of the note issue is to rest with anybody else than the Imperial Bank, then it can only be a Government of India note. If you propose that the Imperial Bank should take on the responsibility of converting these notes on demand then they must be Imperial Bank bank notes. I do not see any alternative. You cannot both eat your cake and have it. That is what I feel. I am not a shareholder of the Imperial Bank, but from the point of view of the shareholders of the Imperial Bank I would say: 'Are you going to assume responsibility for keeping the note issue convertible?' I do not know what Sir Norcott Warren would say. I remember quite well at the time when we had difficulties and did not know what was going to happen that he had a feeling of satisfaction that the responsibility rested on somebody else. That is why I say the Managing Governors of the Imperial Bank would have to think twice before they accept such a liability.

12459 Finally am I right in concluding that your angle of vision in matters of currency and finance and exchange and banking has been considerably modified or broadened since you left the Government service?—That is a difficult question for me to answer if I have understood that aright.

12460 (Sir Munckey Dadaabhoi) I will leave it there.

12461 (Sir Rajendranath Mukherjee) In paragraph 5 of your memorandum you seem to express a doubt whether a full valued gold coin will be generally acceptable in India. Why do you make this statement? Do you know of any other country where a full valued gold coin has not been accepted?—Well I only put that in in order to protect myself because in some places in India when I tried to bring in the gold coin at the time when rupees were insufficient I simply found that the gold coin as I answered the Chairman was not so popular.

12462 We had gold coins in circulation in several parts of India and also in reserves?—But there are other portions of India.

12463 But we had the gold coins in circulation and these were always accepted?—My point was that if a gold coin was issued it at once set up a demand for its being converted into silver coin of some kind. There are places in India where my experience suggested that it would not be generally acceptable.

12464 Does it matter if it would not be used generally?—I think it depends on the localities. As I have just explained in answer to Sir Munckey there are parts of India where a gold coin is more readily acceptable than in other parts.

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[Continued]

12165 It has been stated by many witnesses that silver hoards are a troublesome factor in the introduction of gold currency?—Yes.

12166 You said in your evidence before the Babington Smith Committee that many of the large silver hoards in the Indian States were exchanged for gold by the Government?—I do not follow it at question.

12167 You said that from April to June, 1914 the device of exchanging the gold holdings of the Government for silver hoards in the possession of the Indian Chiefs and Princes was resorted to to a large extent?—I said that.

12168 Can you say to what extent it was done? Can you give me any idea of the quantity?—No I do not know that.

12169 You cannot give us any figure?—I can not get any figure at all. I never could. During the war, when I was desperately short of silver we endeavoured and did succeed in many cases in getting the silver rupee.

12170 But silver hoards were converted to a large extent?—It is very curious how it worked. I remember in one particular case the obligation of re-converting them into silver was maintained by the particular Indian Prince to whom we went. He said "Well I am very glad to let you have it. I will take gold but please remember if I prefer to have it back in silver I must have it."

12171 Your estimate of the holdings of hoards of silver was that it was more in the States than among the people?—I think so.

12172 You cannot say to what extent?—I cannot say at all. I should say you would get some estimate in some sort of way from those banks which are situated in the States. I do not know whether the Imperial Bank's Branch at Hyderabad could give you any evidence or any indication of the amount of silver which was held in Hyderabad, but I always conceived that it was very large.

12173 It has also been brought to our notice that if a lot of silver were thrown on the market by India it will be an ungracious act on India's part inasmuch as the United States helped us with silver by the Pittman Act when India was badly wanting silver? The proposition amounts to this—that a good portion of the silver that we bought from America should be replanted back on them.

12174 You were asked by the Babington Smith Committee whether it would be true to say that America, failing assistance (in regard to export of goods from India) was obliged to come to terms with us over silver in order to get rupee credits in India? You replied Yes so that it would seem that there is no moral obligation on India to help America because they helped us in 1918 with silver?—The position during the war was this. After America came in on the side of the Allies, she was a big buyer of war commodities, and she had to have credits opened in India. We used that argument to point out to them that we were simply exchanging commodities for their holding of silver, but I think I am right in saying that the authorities in Washington demanded—I think it is among the papers of the Babington Smith Committee—a statement by the responsible officer in charge of the Currency Department as to his apprehensions in the event of the note issue being inconvertible before they would part with any silver. I know I was called upon over a week-end by the Finance Department definitely to set out a reasoned statement which Lord Reading who was then in Washington and Sir James Brunyate said was required by the

authorities at Washington to go out as a signed statement from the Government of India a Controller of Currency. They did not want any addition to it. They just wanted his definite statement that silver was necessary to prevent the note issue from being inconvertible and it is among the papers you will find with the Babington Smith Committee's Report.

12175 In one of your answers before the 1919 Committee you said "We owe it to the people of India to try and give them some means of escaping from the present domination of silver." That was your statement in 1919. What is your objection or what is your view now on this point?—I have no objection and I still maintain that view. The whole evidence I have given is for the purpose of carrying that out—that ultimately there would no longer be under the influence of that factor.

12176 If you want India to escape from the present domination of silver, that means gold currency?—I say ultimately we must get on to something like gold currency. I have not wavered from that.

12177 (Sir Alexander Murray.) You have already been exhaustively examined on the question of the Central Bank. Am I right in assuming that while your ideal for India would be a Central Bank, under present conditions you do not think that the time is ripe for the Central Bank?—I suggest as regards the Central Bank that the problem should be segregated from the other problems which are being considered by the Commission and that you should suggest that a Central Bank is a desirable thing in itself but that the question needs local investigation and thorough sifting before you can set it up.

12178 In plain words you do not think the time is ripe nor the conditions suitable for the institution of a Central Bank?—I do not think that the time is ripe until decisions on other questions are taken. My point is that our knowledge is limited—our knowledge of how it should be actually translated into practice is by no means complete. There are these kinds of questions to consider: the capital of the bank, the extent to which other banks should be required or should be given an opportunity to take a share in it, the means whereby the bank should employ its funds, the delimitation of its functions as between the Imperial Bank and itself and a whole heap of similar questions—the liquidity of the investments in which it should employ its funds and similar matters. There are a whole number of these things which cannot be exactly answered straight off and they must, I consider, be thoroughly sifted before you can say that you can bring the bank into existence. If you had all those questions answered and you were satisfied that they could be answered and you also had your personnel in existence and the functions of the bank *vis-à-vis* the Government also were drawn up, I think you would put it in force the moment you settled your other questions because the primary function of a Central Bank would be undoubtedly to buy and sell gold for the purpose of maintaining exchange.

12179 If the Commission formed the opinion that further inquiry was necessary would you be satisfied that the conditions should remain as they are now so far as the Imperial Bank is concerned?—So far as I can see if you set up a Central Bank some change in the character of the Imperial Bank will follow necessarily.

12180 And if we do not set up a Central Bank?—If we do not set up the Imperial Bank you must continue with the Government doing those functions of the Central Bank which it now dis-

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[Continued]

charges, and the Imperial Bank would continue doing its functions so far as it does discharge them without the addition of the management of the note issue, and without any liability for the provision of the sterling requirements of the Secretary of State. Other questions which will arise will be how the remittances of the Government of India should be effected, whether as at present, or whether under some modified system.

12151 What are your own views on that point?—My own particular views on the question of the remittance operations of the Government of India are that I do not like the present system of purchases of sterling in India, not because I object to sterling being purchased in India as such, but because I think the Government requirements should be put up to competitive tender. I have been rather worried, well, not worried, but concerned, to know how the allocation of such purchases of sterling in Calcutta—I am not talking as between Calcutta and Bombay, but in Calcutta itself—is distributed among the different banks. So far as I can make out the decision under the present system lies in the hands of the brokers.

12152 Can you substantiate that in any way?—Yes, I can substantiate it in so far as I have heard it from my own people out there. It is dependent upon the broker bringing you what the Imperial Bank wants to purchase.

12153 Is it not general knowledge when the Imperial Bank is a buyer on behalf of the Government of India—I think it is general knowledge that the Imperial Bank has been a buyer—I mean the time between when he is a prospective buyer and the time that he has bought is a matter of seconds or of minutes.

12154 Have you any particular instance in view where a particular bank has complained?—I am making no complaint. I am not using my appearance here before you for the purpose of bringing out any particular domestic question, but I am quite willing to answer on this point. I have not come here for that purpose but I only wanted to put before you what my experience is after four or five years on this side of the business. This is one aspect of it. There has been a new system introduced in India, namely, the purchase of sterling and I have found that there are these difficulties and I have always wondered how they were got over. It so happened that my Calcutta manager was over here last season and I asked him "How do you get your sales of sterling to the Imperial Bank?" He said "Well, sometimes I can do it direct, but I do not think it is a good thing for me to do because it offends the broker and I might not get it on another occasion."

12155 That is the whole explanation of the broker being employed by the seller?—Yes. My point is, as it seems to me—I am telling it to you quite honestly—that the decision is in the hands of the broker. You know quite well in your own business experience that a broker can bring you business and need not bring you business.

12156 That is very likely true if you wish to employ a broker?—If you do not employ a broker and you alienate him he does not bring you other business.

12157 That is true?—Therefore the decision is dependent on which side the broker thinks his bread is buttered.

12158 As a matter of fact you can do your business with the bank direct without employing a broker at all?—Yes but on another occasion when the bank is employing a broker you may not get the business and you will not get other business if you leave the broker out. This is

only a particular application of a general proposition. The general proposition, to my mind is that the requirements of the Government should be put up to tender competitively, and I feel that you must not exclude London at all because I think there is a big rupee market here which has been growing for some time. It is a central market and it is the best thing where there is a central market to be in it and not to be outside it. Also there is quite a demand for rupees in New York—and New York functions mostly through London—not directly out there in India, but through London—and that demand cannot be brought into play under the present system because New York is not directly represented in India and, therefore that particular form of competition is denied to the Government under this system.

12159 While we are on the question of Government remittances will you deal with the question of reverse councils?—Reverse councils there is no question about. Reverse councils must be done over there.

12160 Would you be in favour in future of making the contraction of the currency a statutory obligation?—Yes, I would like to see that done very much. A great deal of our difficulties in the past which I referred to at an earlier part of my evidence would disappear.

12161 You would not accept the statement we have heard from a previous witness that the extent of possible contraction at any given period of strain would be determined not so much by the strength of the sterling reserves as by the capacity of trade and business to stand the strain?—No you cannot go through a period of purging without some amount of discomfort whether it is physical or in matters of currency. The unfortunate thing is that this discomfort in the past when it did arise, used to be attributed particularly to the operations of one or more individual officials. If you put it on the basis of statutory prescription the dose will be taken and complaints as to the discomfort will be limited or will be accepted as inevitable.

12162 You would make it absolute?—I would like to see it absolute.

12163 You would have nothing in the system as it may be devised in the future corresponding to the suspension of the Bank Act here?—No. Emergency measures must be decided upon and taken at the moments of emergency. One of the most salutary lessons which I ever received from my old chief was when I asked him to get prepared a bill whereby I should be relieved from my liability to meet notes. He declined to do it. He declined even to see it put on the stocks. He said "I can get it done in six hours if the need is there but you are not going to get me to make any of my preparations in advance because this will disarm you and take away some of your confidence in yourself." It was a very salutary lesson to all of us.

12164 Reverting to 1920, do you think it would have been possible if we had a statutory obligation in existence then to have contracted the currency to the extent of the full value of reverse councils?—No, because the Government of India then was financially not capable of meeting its own obligations on its Budget.

12165 I appreciate it was difficult, but it left its gold standard reserve untouched at that particular time?—It did.

12166 Why?—Well the decision with regard to that point was taken in June or July, 1920. I think the answer to that was that some of us did not dare to face the trouble that we were told was

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going to arise particularly in Bombay by a high bank rate. I think it was 9 per cent. at that time was not it? That was the long and short of it.

12.97. As a matter of fact when those reserve councils were being dealt with in 1920 there was not a contraction of the currency!—There could not have been because as fast as we contracted there were maturing a whole host of Treasury Bills. Looking back to the report of the Babington-Smith Committee I very distinctly remember a conversation which took place between Sir Charles Addis and myself. He said, when we were discussing this question of how it was that everything had gone wrong that none of us—and he was quite right there—had taken into account that there were maturities of Treasury Bills which at once made it impossible for the Government to make any effective reduction in the circulation. If the Government's financial position at the present moment were not so strong I think you might have to consider a similar difficulty. Remember that we had then in the hands of the public, I think, 100 crores of Indian Treasury Bills, all of which could mature just exactly with the same effect as would be felt here if all those who held British Treasury bills in London were for any particular reason forced or desired to convert them when they matured at the rate of say, £1,000,000 a day into cash at the Bank of England and took the cash out in gold. Within 30 days they would probably wipe out all the gold now held here.

12.99. We have had it in evidence that it was fear of the consequences on trade and commerce generally that prevented the Government from contracting the currency in 1920?—Well personally my recollection to-day is—and I have to talk of things six years ago—that we considered it very carefully and the decision taken by those who had to take the decision was that they were not prepared to see the high bank rates which would necessarily be brought about by contraction of the circulation.

12.100. In connection with the question of emergency currency you differentiate between the currency issued against the jute, cotton and wheat purchases and the normal expansion of the currency that is always going on? Do not you think it advisable to do something that would really create a discountable bill market?—Yes, but do not let us call it "emergency issue."

12.101. Let us call it seasonal?—An emergency issue is an emergency issue that is to say when an emergency has arisen threatening the country as a whole.

12.102. I used the wrong word. Let us call it the seasonal demand that brings on a demand for currency in India, particularly for cotton, for jute, for wheat and for rice purposes?—Yes.

12.103. As you know the Imperial Bank and the Government of India in particular months have to send 20 crores or more up country for cotton. A little later they have to send up another 20 crores for jute and sometimes more than that. Later on they have to send 10 crores to Burma to finance that crop. In view of your long experience in the Currency Department and since then as a banker can you suggest any means whereby self liquidating bills could be created against that particular business?—I have thought about it and the more I think about it the fewer I find of self liquidating bills in India, and I do not see how to create them. I do not like the idea of an expansion of the currency to meet any other requirements than a real emergency. That is one point I should like to make.

12.104. May I put it to you in this way? You told us that at certain periods of the year money in India is unobtainable because we cannot even get a half per cent from the bank and at other times it is unobtainable, and practically we can not get it without paying 5 per cent. or 9 per cent. In view of that do not you think it is desirable that we should try and find some means of meeting this seasonal demand?—I suggest that the only way to meet that is that you should attract funds into India. I admit that it does not solve the whole problem because you can take me on to the next point that we might then get bank funds in India which are not convertible into the particular form of currency which people need. One of the difficulties at the present moment in getting funds into India is the uncertainty as to the rate at which you can bring them back. If you have to rely entirely on an exchange operat on both ways, naturally you have to pay in the rate for the advantage of being able to employ your funds out there so that does not help very much. I do not believe the trouble would be so great if you can get funds out there in the form of gold and we have the gold points fixed. Then you would get much greater elasticity in the matter of funds going out to and coming back from India.

12.105. I agree that you can get the funds out to India, and I agree that the banks have special facilities for bringing out money and it is their business to bring it out and utilise it to the best possible advantage. But in the particular conditions of Indian trade where you have at one moment money nonobtainable even at half per cent. and at the next moment you are paying 6 per cent or 9 per cent for the use of money do you not think it is a pity having money brought out and modern sent out again?—No I think it is a natural thing.

12.106. You do not differentiate between Indian conditions and other conditions?—I recognise the peculiar difficulties of sending money up-country to bring goods down and that a particular form of currency is required for this purpose, but I do not believe in any other methods than of bringing funds into India to create the necessary internal credit.

12.107. Therefore you are definitely against the creation of a system of self liquidating bills against the seasonal requirements with regard to cotton, jute and wheat?—I thought it could be possible to do so as we thought on the Babington Smith Committee, by a system of allowing export bills to be taken in as cover. Although I think it is less objectionable, it probably is not practicable or it is only practicable to a limited extent. We have had a curious position in India which both you Sir Alexander and others on the Commission will be able to bear me out in which is that at times when we have had a very strong demand for rupee exchange there was not the same repercussions in the money market. There was a demand for exchange rather than a demand for funds. A large amount of the sales of sterling to the Imperial Bank did not coincide with a time at which money was stringent in the sense that you had very high rates, but simply there was a very strong demand for exchange just as a covering operation. There was no freedom in the exchange because of the uncertainty. Probably this would disappear when you have got a more stabilised system. The point I want to make clear is this. It is rather counter to what we used in the Finance Department to observe—the rise in the rupee exchange has always been coincident with a rise in the value of money. We used formerly to see while money was tight a rise in exchange and we used to say "Exchange is rising and therefore money is tight and is going to be tight" but I have not found that

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so much of latter years. I find a demand for exchange, but not necessarily high money rates for temporary money—for call money, or weekly money, or monthly money.

12507 (Mr Preston) You say in Section 4.

The primary objective should be to attract gold into Indian currency under whatever system it is to be operated. You also have been good enough to express your opinions on the gold standard system which the Government of India has submitted to you, and you have told us that it did not appeal to you!—Yes.

12508 I would like just to suggest a simple and automatic system of a gold standard leading to gold currency for the purpose of seeing whether it would meet with your approval. The first postulate would be unrestricted import of gold at the upper gold point and unrestricted export of gold at lower gold point or equivalent gold funds. Would that meet with your approval?—Is that to be statutory?

12509 Statutory I.—I should like to see a statutory obligation on those lines.

12510 Absolutely statutory on both sides of the book?—You would have to provide in any statutory provision on the subject that there should be an option to provide gold exchange or actual gold in exchange for Indian legal tender.

12511 At a time of weak exchange if the Bank applied for what we call Reserve Councils they would naturally take gold funds—we would not want to take the actual gold?—Yes. I think that is quite a suitable arrangement.

12512 Then No 2 that Council bills which form a very important and rather particular section of our Indian currency system—a peculiar portion of our Indian currency system—should only be sold to the actual extent of Government requirements?—On that point I should like to enlarge a little. I do not know whether it is possible in any way now, by reason of the many changes which have come over the administration in India and the administration here, but I would like to suggest that possibly some of the contracts as are let in this country by the authorities for supplies going out to India on Government account should be quoted for in rupee currency so as to eliminate the extent to which Government need intervene in the exchange. I feel that if the Government could definitely give a definite figure in their Budget for their charges on account of the service of their sterling debt which is repayable, I take it of being carefully or accurately estimated and also on account of their pecuniary and lease commitments which, I suppose, are also repayable of some kind of estimate, supposing then we could get a definite figure in the Budget for those and the Government did not exceed that figure then the rest of the requirements of exchange at a time when the rupee is in demand should be met, as you suggest, by the flow of gold out there.

12513 Then No 3 is "Legal tender of rupees not to be disturbed"?—Well, I have already indicated that I do not view at all with any favour the disturbance of the rupee.

12514 Then if Council bills are only sold to the actual requirements of the Government the position would be this. Having an unrestricted inflow of gold for all currency requirements above and beyond after the Council bill requirements have been met they would be obtained through the paper currency reserve thus providing a steady annual inflow of gold into India. Would that meet with your approval?—That would meet with my approval. I quite agree with that but at the same time as I say, you should have a statutory obligation for Reserve Councils. I should be quite content then because we should

be providing for the currency to be contracted as well as for the currency to be expanded.

12515 In either case, it must be absolutely statutory?—Yes.

12516 No question of any departure from unrestricted or unlimited import or export?—I quite agree.

12517 Perhaps the next point is getting on to a matter which, so far as this morning is concerned we have not yet touched upon. In any gold scheme naturally, we have to arrive sometime at a parity at which we are going to place our gold coin. As soon as the new parity has been decided upon the value of the gold and the sterling securities in the paper currency reserve to be written up to the same new parity and a sufficient amount of securities from the gold standard reserve to be transferred to the paper currency reserve to wipe out the present *ad hoc* securities. Would you kindly favour us with your views on that suggestion?—Well, I have already indicated to the Chairman, and in answer to other questions that I do not like that balancing figure of *ad hoc* securities. If you regard the gold standard reserve as a part of the paper currency reserve as we used to regard it regularly for the purposes of seeing what reserves we had it does not make very much difference whether you do actually transfer the gold standard reserve securities to wipe out the *ad hoc* securities. The point that I make is this—that the composition of the paper currency reserve must be in real assets. I do not like the *ad hoc* securities because they are not real assets. They are of no use to anybody at any time. At a time of emergency you cannot sell those things, and you cannot do anything with them. I know that I am very old fashioned on these matters but as I said in answer to Sir Henry, I would like to see a good solid almost full, metallic backing or at any rate, full assets for your note issue. I do not regard the *ad hoc* securities as assets. I take it the *ad hoc* represent really, so to speak, the remains or the debris which have not yet been quite cleared away from the storm of 1920 onwards.

12518 Then if there is any balance remaining in the gold standard reserve that could be converted gradually into gold, and shipped to India?—Well, I would like to see that purely from the sentimental point of view. I do not think it is absolutely essential but I think from the sentimental point of view as indicative that there has been a definite understanding that the gold which India has is passing within her confines and will be under her own eyes it will have a very solid effect and would be an earnest that the problem is being handled from the point of view of the feelings that found expression in times gone by on the questions of India's gold reserves. To the more educated and more intelligent minds it does not make any difference, but it has a considerable effect on that way.

12519 The next postulate I have to state is this that the full liability of establishing gold currency must not be undertaken before a fund of, say, 100 millions had been accumulated by these annual accumulations. What would be your views on that?—Well I do not know that I can say the liability should be taken at 100 millions or at any other point. I would rather leave it in a more indefinite form, and say at some later stage or other that issue of gold coin could definitely be assumed as a legal liability by Government. But for the moment as I said in answer to the Chairman I am only envisaging the problems of the immediate future. There I think it must be a case of the option of converting notes into silver or gold, the option to convert into gold being left to the Government.

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[Continued.]

If when you have 100 millions you think we can assume full liability for a gold coin circulation I should be very ready to see the liability taken. It might be reached before that stage if the hoped for development in banking made it possible. It may not be reached by that stage, and you may have to wait till later.

12520 The next postulate is (and this is in connection with our present stock of rupees in India) to stop all further coining of rupees. Would you agree with that?—I take it no one would coin rupees if they have 50 crores.

12521 Having in view the large stock of rupees at present in the Currency Office, in addition to what is held by the Imperial Bank, the exchange banks, the indigenous banks, the shroffs, the moneylenders, and bazaars and others, and the considerable amount in the aggregate which must be presumed to be held in the custody of many thousands of industrial concerns operating in India, and thousands of shopkeepers and 50 per cent of the population of India whose daily transactions must of necessity be by means of rupee transactions, assuming even a liberal amount of rupees in circulation there is no necessity what ever to contemplate the sale of any portion of the Government's present stocks which ought really to be looked upon as a necessary reserve for not too far distant requirements. Would that meet with your approval?—I have already answered that. I said I never wanted to see silver sold. I have also suggested that there may be a certain redundancy in circulation, but I hope that the stock of rupees will go into absorption gradually. I would not care to see any of them sold because I do not believe that we could do without them at some later stage. If you sell them you would probably have to buy them back. If you did sell them, I think, you would only sell a portion of your stock of rupees at the present moment if you thought your circulation was redundant. I would not sell them for the purpose of replacing them with gold. I would only sell them because for the moment you thought you had enough circulation in existence. If you have not then keep them. If you have a redundant circulation then you would sell them. I do not know whether price levels in India are balanced on the present amount of circulation. It is a question I cannot answer. But I do not feel that there is any reason for the wholesale selling of rupees.

12522 In pre-war days we used to look upon a stock of rupees of 20 crores as being about our minimum Working Reserve, did we not?—Yes.

12523 Assuming that the value of India's overseas trade is now 100 per cent more than it was in pre-war times would it be unreasonable to assume then that we now look upon 40 crores as being a minimum working balance?—Yes. Of course you have to recollect also that the note habit has grown greatly and the cheque habit is growing greatly. All those are new factors. I know we used to make an assumption of what we thought was required for the purpose of having enough silver in hand to meet requirements. I do not know that I should be entirely guided by the principles of our past estimates, because I should have to weight them by reason of the change in the habits of the people and that weighting factor would necessarily have to be altered regularly according to the developments of the banking habit. Naturally you would not expect people in India to go on wanting rupees on the same scale as in the past. Personally now you are on this question I may say I very much regret the disappearance of the one-rupee note because it seemed to me that was undoubtedly a help towards people understanding what the

cheque was going to be. The ordinary Indian in the country side cannot work a cheque book—he cannot do it, and what we gave him in the form of a one-rupee note was really a cheque book.

12524 If we were to accept 40 crores as the minimum, and taking our stocks in India at about 75 crores, and if we accept an annual absorption of from seven to nine crores, and seven crores would be a low one—?—Well, I see that the annual absorption in the last eleven years has been nine crores. Mr Denning a report says that the absorption has been at that rate.

12525 The bullion left with us in our present hoards would only provide barely for five years consumption?—Yes. I think on that basis it is quite so.

12526 As prudent people you would not recommend to us any action such as had been suggested, to sell any portion of our present stock of rupees in the Currency Department?—I would not sell any portion of our present stock of rupees unless we have definite evidence that there is redundancy, and on that I say I cannot find any evidence so far.

12527 There are two or three matters on questions of detail which I want to put to you as their form part of the whole concrete scheme. It is suggested that Council bills should be sold by public tender in India, alternatively in Bombay and Calcutta, and also a portion in London. Would that meet with your approval?—As long as it is a competitive tender I should like to see it distributed between the two places. I still believe that London is a better place for it, but if you do sell them in India at a competitive tender it must necessarily be at one point.

12528 Then another is that the sale of Council bills by tender might be undertaken by the Imperial Bank as agents for the Government?—You mean in the same way as the Bank of England tender here for Councils.

12529 Yes?—I think it is essential that somebody should do that. I would like to make another point with regard to the sale out there of the Councils. The Bank of England always make very certain that the India Office receives sterling before any instructions are sent out there to pay out rupees. I do not know how this is done under the present system. Do they part with rupees before sterling is received?

12530 (Chairman) We are told that the rupees are given out before the sterling is received.

12531 (Sir Furshatullah Thakurdar) Mr Kirsh made a point of it—I thought it must be so. I cannot see how it can be done otherwise except by another system of telegrams—"Telegraph on receipt of so much sterling." I do not know whether that is done, but I know the Bank of England here were very particular and it was a cleared and accepted cheque or a cheque by the purchasing bank on its account with the Bank of England alone which they would accept not a cheque which had got to go through to be cleared. It had to be cleared before they would issue the instructions here.

12532 (Chairman) We have been told that rupees are given out there before the sterling is received here and that it is therefore necessary to exercise discrimination?—It is not a system which commends itself to me.

12533 (Mr Preston) The last point was that all notes in future should be retained as Government of India notes?—I have given you my answer.

12534 You have already expressed your opinion about that?—Yes.

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a convenient coincidence for the purposes of the new system that you have in mind, namely, ultimately reaching gold currency?—Do you mean a coincidence as a matter of cause, or a coincidence simply in terms of time?

12559 In terms of time?—No

12560 You do not?—No

12561 When you say there should be no more coining of rupees, you know that the people of India are getting accustomed to the use of more notes. We have in the Treasury enough rupees for the next five or perhaps seven years and you feel that no more rupees need be coined for the period of transition. You do not think that is a rather useful coincidence?—Supposing you were not contemplating any extravagant change at all, supposing you were just dealing with it as we were in the old days, and we found ourselves with 90 crores of rupees. I should automatically say, "We will stop coining rupees, we have got enough now."

12562 Except that this enables you by statute to stop the coining of rupees, leaving you with enough rupees for the period of transition and enabling you to give an indication to the people as to what you are finally aiming at—to that extent?—I do not like that. I do not like the idea of saying we are going to stop the coining of rupees, because though the statutory provisions appear to us in discussion across the table here as perfectly understandable and reasonable when they are spread abroad outside and known to the countryside it is perfectly possible for people to make capital—I do not mean any other capital than financial capital—out of the fact by simply saying, "Your rupees are useless," or "The Government has said they are going to stop it." Why are they going to stop the coining? Because they intend to withdraw them altogether.

12563 Would people not believe that Government stopped further coining of rupees because they had enough for several years, and after that proposed to give them gold coins?—They might equally say they are stopping coining because they are going to say the whole of the rupee circulation is useless and are not going to put any more in.

12564 It is then, in your opinion liable to misconception of that kind?—The most extraordinary views have been expressed and you always have to guard against that kind of thing.

12565 (Mr. Preston.) Might I say that my reference to the subject of stopping of further coining of rupees was more a departmental procedural—And not statutory?

12566 (Sir Purshotamdas Thakurdas.) I understand that I was only taking it a little further and finding out what Mr. Gubbay would say to a statutory prohibition. Regarding trade bills, you said that they did not exist at present. Supposing it is urged that trade bills do not exist and are not available in large numbers at present because the system is not in vogue and no facilities are available to the commercial community for the discount of trade bills and further if it is also urged that with a cheaper method of finance by means of trade bills being available the Indian commercial community, who are not ignorant of the principle of bills would take to it very rapidly would you agree with that? Well on the question of the trade bills, we had an investigation made before I left India by Sir Edward Cook to get something of the facts, if we possibly could before the 1919 Committee came into existence as to what hundis meant. I always felt that nobody that I asked could definitely tell me that hundis could be referable to any specific commodity or any specific quantity

of a commodity which is changing hands. I do not know whether you can correct me on that, but that is my root objection.

12567 May I ask if the report of Sir Edward Cook that you referred to is available?—Yes.

12568 The report is printed?—Yes.

12569 In the Babington Smith Report Appendix A?—Yes. That is my difficulty about the bill. I conceive of a bill being referable to a specific quantity of commodities purchased by one man from another on which short finance is extended by a bank or discount house, who looks both to the names of the drawer and drawee, and knows that the goods are in existence. The goods are in existence, therefore the banker knows he is not helping any kite flying, and he knows the two names, and he says, "They are good people." Then he puts his name on the back of it, and that will fly round everywhere as being an acceptable, negotiable instrument. It is short dated. You know at once you can sell it on the cheapest possible terms. The better the names of the drawer and drawee the better the bill will be. As you know without my having to say so, a bank bill commands a better price in the market than a Treasury bill, for the sole reason that Continental purchasers of bills are precluded from buying British Treasury bills because there must be two names and they are big buyers of bank bills. That is a condition, if it could be brought into existence in India, where I should say that there was good cover available, but I do not see it yet.

12570 If such bills could be brought into existence you would admit, as you said just now, you would look upon them as quite good cover?—Yes.

12571 You mentioned in reply to Sir Reginald Mest two instances. You took, for instance, a man buying cotton in Surat and said that the merchant "cannot draw on the cultivator"—I wonder if you meant it but I took down your exact words—why should he draw on the cultivator, who is the seller of raw produce to him?—Because he does not know him at the time.

12572 But the cultivator will require to be paid in cash in any case. The merchant may draw either on his buyer in Bombay for whom he may be purchasing, or he may draw, if he is buying on his own account, on a commission house in Bombay which is financing him?—And Sir Reginald then took me round and turned me over to the other side, and said instead of the man in Bombay drawing on the man in Surat let the man in Surat, after the price has been fixed draw on the man in Bombay and sell his produce.

12573 Do you not think that is feasible?—There you have the beginning of the elements of a bill. Then you have to support that bill with arrangements whereby the Surat seller of goods can discount it at once.

12574 Exactly?—Where does that exist?

12575 He discounts his sight bill at present with a bank or banker in Surat in order to get cash?—He has to discount that. Is that going to be cheaper to the man who buys the cotton than to take an overdraft and work under a system of cash credit, and take the silver up there and pay for the goods on the rail, because you must remember that the discount market in Surat is limited.

12576 The discount market in Surat would be a much more limited market as compared, say, with Bombay?—Yes.

12577 He gets the cash in Surat, and pays it to the cultivator—his seller? If there are banks at important centres like Bombay prepared to discount say, two or three months' bills, the commercial community would not be wanting to utilise



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about that, but I feel that if the Government did not appoint their nominee, there ought to be some understanding that whoever is appointed is someone that the Government would agree to. It ought to be an understanding.

12607 You would have it with the Government's approval?—It ought to be at any rate as a matter of courtesy to the largest shareholders—he should have some voice.

12608 You are not in favour of giving the largest shareholders any representation by way of directors on the board?—What I feel is, I want the policy to be independent, and, therefore, that nobody's nominee should be dependent upon being able to secure the assent of those whom he represents. I can conceive there will be cases in which there will be a conflict, and it is necessary and desirable that he should be able to stand up and say "Well, that is my view. I am going to see it through. If you do not want to see that view through, then you had better get somebody else. He ought to be able to maintain his own views independently, and use his own judgment."

12609 Would you, therefore, have the Managing Governor's appointment dependent upon the Government's goodwill, or would you not?—No, but I think prior to his appointment his acceptability might be put to the Government, or ought to be, because he will be in close touch with the Government. He ought to be somebody who you will know will work with the Government Department, and is not for any particular reason somebody that they do not want to see. They might have good reasons for it. It is simply and purely a question of harmony, but after he has been appointed I do not think his retention should be dependent upon the goodwill of the Government.

12610 Would you make the approval of the Government a condition of his appointment?—Do you mean statutorily?

12611 Well, I meant statutorily, or otherwise by agreement. Suppose the Central Board wanted a particular person, and the name was suggested to the Finance Member, and the Finance Member said "No I do not think you can have this man," and the Board unanimously thought he was the right man, what then?—The English practice in a case like that is that you should rely entirely on tact and compromise. I do not like relying on statutory provisions in these matters.

12612 I take it you are prepared to have a compromise in that case by meeting each other half way and selecting somebody else?—I do not think it is a question of meeting half way. It is a question of persuading one side or the other that he is not suitable, or that he is the most suitable man.

12613 Or name somebody else?—Or name somebody else who is equally suitable.

12614 Regarding rupee tenders, in reply to one Member you said you would have tenders called for by the Government of India payable in rupees?—Yes.

12615 That is for the purpose of reducing the liability of the Government in India to make sterling available at this end?—Rather for the purpose of eliminating uncertain factors in the Government amount of remittances at home. You can determine your liability for sterling requirements on your debt and you can always determine your liability to Pension charges and Leave charges, and other things. In the case of the great bulk of purchases of railway material, and other things which the Indian Store Department do under the High Commissioner, you cannot determine when the goods are going to be

delivered, and you do not quite know what provision to make in the Budget. Also I know there are a large amount of charges, like weapons, ordnance and artillery, which are required for India, which I understand are still done here by the India Office, and not by the Office of the High Commissioner. I was anxious to get somewhere nearer finality to any figures which might be put in the Budget for the amount of remittances so that we know what amount has been budgeted for, and that this amount of sterling has been purchased, so that we who are engaged in business in India will know there is no more relief to be obtained from that source when the exchange is rising, or if there is a weakness in the exchange, there will be no more sources of weakness coming in so that way, and then we should go on to do the other necessary operations.

12616 You would prefer that the requirements and demands of the Secretary of State should be put at as low a figure as possible?—Yes, for the purposes of this particular argument. I think it is a desirable thing that they should be kept as low as possible.

12617 You further think that this would be a useful step in the direction of an automatic currency system for India?—Yes, whoever sells these goods would have to cover his exchange himself.

12618 I want to ask you a few questions with regard to the ratio of 1s 4d or 1s 6d, which is also before the Commission. You gave evidence before the Babington Smith Committee as representing the Government of India?—Yes.

12619 You were also a member of that Committee?—Yes.

12620 I do not know whether you would like me to read out the questions, but I want to refer to Volume 2 at pages 59 and 59, Question 564 and onwards, where questions were put to you in connection with the ratio. The ratio then was a question of 1s 6d or 1s 8d or 2s. In various questions, from 561 on to 583, you definitely expressed the opinion that a high exchange is detrimental to the cultivator and is detrimental to the industrial interests of India. May I ask you if that principle holds in the case of the difference at present between 1s 4d and 1s 6d, an increase of 12½ per cent?—Yes. I have pointed out in addition that the rising exchange has a much greater effect than a high rate of exchange.

12621 You used the word "rising" nowhere, if I may say so. It begins at Question 564, on page 59?—In Question 573 I said "I pointed out that a rise in exchange would undoubtedly be a handicap to these industrial undertakings whose products are, or would be, in competition with manufactured products from other countries." I have always maintained throughout that there is a difference between a high exchange and a rising exchange. I think the point is somewhere brought out that once you can get an adjustment of prices to a particular level of exchange the theory should be that you have got equilibrium at that point, but the process of getting such an equilibrium might disorganize trade and might alter the trend of trade and its character. I do not say that it is equally true that if you should put up your rupee to any particular point, say 10s, but it is true that the process of getting up to it creates the greatest dislocation. When you have got a certain rate if the price levels have been adjusted to it both in the country where you are considering it and the countries outside then I do not think there is anything like the same effect—I should say, the effect is probably nil.

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12622. I will take it that in addition to what you said to the Babington Smith Committee—It is an awfully delicate point I agree but that is my general feeling about it.

12623. Do you think that the adjustment between 1s 4d and 1s 6d has been complete by now? Well, I do think that there are many points which indicate that there are still some points which are in doubt. There is no doubt that the position of the Government of India is sound enough now. It is balancing its Budget but we also have to recollect it is after three or four years of good seasons. What would happen if those three or four years were succeeded by three or four bad years is a risk which has to be taken into account.

12624. Do you think it would be feasible for the Government of India without frittering away resources in reserve here to maintain the exchange at 1s 6d in the case of bad years?—I should speak now with more hesitation than I did in 1919, but I feel that if you could courageously embark upon a policy after fixing the 1s 6d rupee of contracting the currency I think you might expect to go through without difficulty.

12625. It would necessitate a contraction of currency?—I think so.

12626. You are in touch with India being at the head of a very important bank at present? Do you think that it is desirable to expose India to any risk of contraction of currency at present if it can be avoided? Well you see at various points of my evidence I said I was not at all certain that there was not a redundancy of currency. You will recollect the view which was taken prior to the appointment of the Chamberlain Commission that India had been flooded with too much currency for a series of years when there was a large balance of trade in favour of India and rupees were put into circulation in large quantities and gold came out to India. It is awfully difficult to say that India cannot stand withdrawal of its currency but the real problem I will put is this which of the two is the greater evil the contraction of currency or the uncertainty of what the exchange is to remain at?

12627. Since the Chamberlain Commission reported as you know a good deal of water has flowed underneath the bridge?—Yes.

12628. I do not think one could say that there has been no change since then. In view of the depression which has existed in India during two or three years do you think any scheme which necessitated contraction of currency is in the interests of Indian trade commerce and

industry?—Well I do not know what you mean by interests. It may not be in the particular interest of a particular trade.

12629. Generally?—But generally speaking if you have come to a decision on a particular rate you ought really to see it through.

12630. That is quite a different thing from taking cognizance of all view points before coming to a decision. After a decision has been taken that may be another matter?—If you are taking me on that point my answer is that if conditions were to permit it I should much prefer to see all the arrangements ready and available for the necessary operations when you have had the character of the coming monsoon determined. That means that if you can bring about a stabilisation at the present rate and the monsoon prospects are sufficient to justify it I would do so but I can believe that it is quite conceivable that before the monsoon you would require to take an immediate decision one way or another. If no immediate decision is taken then I do not quite know exactly what would happen. You would get a dislocation comparable with the dislocation which occurred before. At some stage or other you have got to do it. We were often told by people in regard to the exchange and with reference to currency matters that you should register what has happened rather than what is going to happen. If you had done this in the autumn of last year 1925 when we knew what was going to happen in the way of the monsoon I think the 1s 6d rupee could have been introduced then without any hesitation at all. Now we do not know what the monsoon for 1926 is going to be. Then there is this action of the Government of having kept the rupee down to 1s 6½d which I think is a material factor.

12631. By manipulation?—But it is a material factor in the situation.

12632. (Chairman.) We have taken a lot of your time I am afraid. Is there any other point you would like to bring before the Commission?—I do not feel that I ought to take up any more of your time either. Personally I have no other point to refer to. You have covered the points that I was very anxious to put before you.

12633. (Chairman.) The Commission are very much obliged to you for the assistance you have given them. The Chairman of the Commission Mr Hilton Young wished me to express his regret that he would not have an opportunity of hearing your valuable evidence.

(Witness.) Thank you.

(The witness withdrew.)

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Mr M V S GURRAY, CSI, CIE

(Continued.)

about that, but I feel that if the Government did not appoint their nominee, there ought to be some understanding that whoever is appointed is someone that the Government would agree to. It ought to be an understanding.

12607 You would have it with the Government's approval?—It ought to be at any rate is a matter of courtesy to the largest shareholder—he should have some voice.

12608 You are not in favour of giving the largest shareholders any representation by way of directors on the board?—What I feel is, I want the policy to be independent, and, therefore, that nobody's nominee should be dependent upon being able to secure the assent of those whom he represents. I can conceive there will be cases in which there will be a conflict, and it is necessary and desirable that he should be able to stand up and say "Well, that is my view. I am going to see it through. If you do not want to see that view through, then you had better get somebody else. He ought to be able to maintain his own views independently, and use his own judgment."

12609 Would you, therefore, have the Managing Governor's appointment dependent upon the Government's goodwill, or would you not?—No, but I think prior to his appointment his acceptability might be put to the Government, or ought to be, because he will be in close touch with the Government. He ought to be somebody who you will know will work with the Government Department, and is not for any particular reason somebody that they do not want to see. They might have good reasons for it. It is simply and purely a question of harmony, but after he has been appointed I do not think his retention should be dependent upon the goodwill of the Government.

12610 Would you make the approval of the Government a condition of his appointment?—Do you mean statutorily?

12611 Well, I meant statutorily, or otherwise by agreement. Suppose the Central Board wanted a particular person, and the name was suggested to the Finance Member and the Finance Member said "No. I do not think you can have this man" and the Board unanimously thought he was the right man, what then?—The English practice in a case like that is that you should rely entirely on tact and compromise. I do not like relying on statutory provisions in these matters.

12612 I take it you are prepared to have a compromise in that case by meeting each other half way and selecting somebody else?—I do not think it is a question of meeting half way. It is a question of persuading one side or the other that he is not suitable, or that he is the most suitable man.

12613 Or name somebody else?—Or name somebody else who is equally suitable.

12614 Regarding rupee tenders in reply to one Member you said you would have tenders called for by the Government of India payable in rupees?—Yes.

12615 That is for the purpose of reducing the liability of the Government in India to make sterling available at this end?—Rather for the purpose of eliminating uncertain factors in the Government amount of remittances at home. You can determine your liability for sterling requirements on your debt and you can always determine your liability to Pension charges and Leave charges and other things. In the case of the great bulk of purchases of railway material, and other things which the Indian Store Department do under the High Commissioner, you cannot determine when the goods are going to be

delivered, and you do not quite know what provision to make in the Budget. Also I know there are a large amount of charges, like weapons, ordnance and artillery, which are required for India, which I understand are still done here by the India Office, and not by the Office of the High Commissioner. I was anxious to get somewhere nearer finality to any figures which might be put in the Budget for the amount of remittances, so that we know what amount has been budgeted for, and that this amount of sterling has been purchased, so that we who are engaged in business in India will know there is no more relief to be obtained from that source when the exchange is rising, or if there is a weakness in the exchange, there will be no more sources of weakness coming in in that way, and then we should go on to do the other necessary operations.

12616 You would prefer that the requirements and demands of the Secretary of State should be put at as low a figure as possible?—Yes, for the purposes of this particular argument. I think it is a desirable thing that they should be kept as low as possible.

12617 You further think that this would be a useful step in the direction of an automatic currency system for India?—Yes, whoever sells these goods would have to cover his exchange himself.

12618 I want to ask you a few questions with regard to the ratio of 1s 4d or 1s 6d, which is also before the Commission. You gave evidence before the Basington Smith Committee as representing the Government of India?—Yes.

12619 You were also a member of that Committee?—Yes.

12620 I do not know whether you would like me to read out the questions, but I want to refer to Volumes 2, at pages 53 and 59, Question 864 and onwards, where questions were put to you in connection with the ratio. The ratio then was a question of 1s 6d or 1s 8d or 2s. In various questions from 861 on to 883, you definitely expressed the opinion that a high exchange is detrimental to the cultivator and is detrimental to the industrial interests of India. May I ask you if that principle holds in the case of the difference in present between 1s 4d and 1s 6d, an increase of 12½ per cent?—Yes. I have pointed out in addition that the rising exchange has a much greater effect than a high rate of exchange.

12621 You used the word "rising" nowhere, if I may say so. It begins at Question 864, on page 59?—In Question 878 I said "I pointed out that a rise in exchange would undoubtedly be a handicap to those industrial undertakings whose products are or would be, in competition with manufactured products from other countries." I have always maintained throughout that there is a difference between a high exchange and a rising exchange. I think the point is somewhere brought out that once you can get an adjustment of prices to a particular level of exchange the theory should be that you have got equilibrium at that point, but the process of getting such an equilibrium might disorganize trade and might alter the trend of trade and its character. I do not say that it is equally true that if you should put up your rupee to any particular point, say 10s, but it is true that the process of getting up to it creates the greatest dislocation. When you have got a certain rate if the price levels have been adjusted to it both in the country where you are considering it and the countries outside then I do not think there is anything like the same effect—I should say, the effect is probably nil.

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[Continued]

annum, at the average India will absorb about 7 1/2 lbs of the current supply in 1930 and less than half in 1940. 7 1/2 lbs would be about £32,000,000, and half would be about £16,000,000—Yes.

12672 The world supply you have assumed to be £75,000,000 and £67,000,000 in those two years?—Yes.

12673 I take it you have added to the £22,000,000 about £10,000,000 for the annual currency requirements of India?—Yes.

12674 The total Indian absorption?—Yes.

12675 You think that £10,000,000 of gold would be sufficient for £10,000,000 per annum for ten years.

12676 Both for gold currency in circulation and reserves at the Central Bank?—I was taking the £10,000,000 as being the figure in the proposed scheme and assuming that the demand would be £10,000,000 for ten years. My own opinion is that one could start the gold standard with less than £10,000,000 because India also possesses a certain stock of gold in the paper currency reserve and the annual volume of gold that I think must be acquired by India is to bring up the reserve to the minimum requirement in the proposed scheme, of 50 per cent over.

12677 We are considering now the total amount of fresh currency required for the circulation of India, with the enormous increase in demand following good monsoons and so on?—Yes.

12678 In addition to what you have just referred to as what is required to bring up the reserves? In the proposed scheme, you would be in a position to increase the gold note issue to 31 rupees for every gold rupee presented to the Imperial Bank or Paper Currency Department.

12679 You would be in a position to do what?—You would be in a position to create a gold paper currency, a paper currency based upon gold, in a ratio of 31 rupees for every rupee of gold sold to the Imperial Bank under the reserve requirements of the proposed scheme.

12680 I see what you mean, but the question in my mind is whether £10,000,000 is by any means an adequate allowance for what is required supposing you have good monsoons?—Well, I am hardly in a position to say. I was really taking the figures of the proposed scheme and regarding them as more or less adequate. Perhaps you would allow me to add that I think if India does go to a gold standard, the question of how much gold will in fact be required will settle itself. The Indian price level must be kept in equilibrium with the world price level. If there are very good monsoons temporarily India will absorb rather more gold than usual. If there is a bad monsoon it will absorb rather less.

12681 Subject to any factor which has to be allowed for the conversion of stores of value kept at present in other forms?—Yes.

12682 In paragraph 5 (b) you say that the drain of gold from London under the Indian gold standard scheme should be judged differently, in relation to the reaction of the situation in London from a drain due to lack of equilibrium of price levels and you draw a just distinction when you say that the derangement that arises in the latter case during transition to the new equilibrium stage need not occur in the former case, if the gold which is drained happens to be redundant—a very vital reservation. What do you think about the position in London? Is there such a redundancy of gold?—Well, I really am not in a position to say. I do not know how the bank authorities regard their present reserves.

12683 It is a matter upon which the instructed public may have an opinion?—Perhaps you will allow me just to elaborate that? What I should

be inclined to say is the dangerous aspect of the situation in the City of London at the moment is not the absolute size of the reserve at all. I do not think that anybody can really say whether the present reserve and the present reserve ratio, if they could be maintained permanently, are too large or too small. What is dangerous is the fact that the Bank cannot maintain the reserve at its present figure without a constant small loss of gold which cumulatively amounts to a large amount to the course of the year.

12684 That is the present position?—Yes, I regard the present position as dangerous, it is dangerous not because of the absolute size of the reserve being too large or too small—about that I do not pretend to say—but because the reserve cannot be kept in equilibrium.

12685 Assuming, as we must assume, that the present size of the reserve is to the eyes of the London Authorities not excessive, and that the condition you have described is one in which there is no redundancy of gold in England, but that on the other hand the difficulty is to maintain the necessary amount?—Yes, but I am not sure in my own mind whether the bank authorities would not regard the situation rather differently if they were absolutely certain that they could keep the reserve at its present figure. What I feel is, in the City at the moment two rather different questions are being confused: (1) the absolute size of the reserve, and (2) whether the reserve, whatever its size may be, can be maintained without loss, and I feel that all uncertainty is really due to the second factor.

12686 That uncertainty would not be diminished by the establishment of a fresh demand for gold from India?—No, I would freely admit that, from the standpoint of the bank authorities, any additional demand arising anywhere would cause them discomfort for the moment.

12687 We are looking at this matter from the point of view of no other interests than those of the Indian State and the Indian community. But as you state yourself in your memorandum the consequences of a derangement resulting to the City of London would be an increase in the bank rate?—Yes.

12688 And the money screw, with all its reactions upon prices and commercial activities. What weight in your opinion should be given to those circumstances, possibly dangerous from the point of view of the interests of India as they would rest upon the prosperity of Indian commerce—I mean a rising bank rate and a high bank rate?—I think a rising bank rate here would have indirect adverse consequences in India through damping down the demand in this country for Indian products. It is because I am quite seriously afraid of the influence of a very high bank rate on international trade that I really suggested the alternative scheme which would not involve a demand of an order of £20,000,000 gold.

12689 In your opinion it is not only the reaction on the situation in London that we have to consider in this regard but the ultimate reaction on the situation in India?—Yes, I do not know that the ultimate reaction would be very serious in India but it would have some influence.

12690 It would be serious in proportion to the degree of derangement, would it not?—Well, that depends upon how the demand for Indian raw materials, and so on, is directly affected by a rise in the London bank rate. If a rise in the London bank rate were followed by consequential rises elsewhere, if you had a sort of international competition in raising bank rates the cumulative effect all over the world would be for a short period of time quite serious.

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[Continued]

Therefore, until convertibility is secured I feel that it would be unwise, however the gold came to the Currency Department, to increase the total issue.

12711 I only want to bring out that that is the way in which the mechanism of your scheme would operate as regards any increase?—Yes.

12712 In paragraph 9 you say that the minimum amount of gold to be acquired would be the amount of 2 crores. That is based upon 30 per cent. of the gold reserve, is not it?—Yes, that is the minimum which you would require.

12713 That is the minimum gold reserve. We have had a good deal of evidence to the effect that 30 per cent. is much too low for India. Have you considered whether 30 per cent. is a safe figure for the metallic portion of the gold reserve in the Indian currency system?—No. I am afraid I have not. I would not like to be dogmatic about it. I really do not know.

12714 Perhaps I may put it in this way. What leads you to the figure of 30 per cent.?—I simply adopted it from the proposed scheme. I simply took the present gold holding and asked what would be the minimum amount you would have to add to get your reserve figure. I should be inclined to say that you can keep the reserve at any figure you like. If for instance, gold notes were presented for redemption and the gold were hoarded under the gold standard, that would obviously create a gap in the circulation which would be supplied by more gold coming in.

12715 I understand the figure of 30 per cent. is only taken by you and it is not your own figure?—No. It is taken by me from the proposed scheme.

12716 It is lower than that of any other central banking system is not it?—I would not like to say. At the moment most central banks are holding nominal gold reserves which are really gold claims and balances in foreign banks.

12717 Means of procuring gold?—Yes.

12718 Claims to gold?—Yes.

12719 I find a reference in paragraph 9 to a resulting deficiency of about three millions in the paper currency reserve being made good by the gold standard reserve. I do not quite follow what your general proposals would be as to the disposal of the bulk of the gold standard reserve?—Well I really have not considered that point very carefully but I should be inclined to say that the gold standard reserve should be maintained for the case of a series of bad monsoons which would temporarily upset the balance against India. Because I do not think in the case of an adverse balance for the time being it would be necessary to ship gold from India to London. The foreign obligations on London could be perfectly well met by transfers of drafts on London.

12720 Then you were contemplating in your proposal the maintenance of a separate gold standard reserve?—Well I have not really thought this point out but I can quite conceive the usefulness of maintaining a separate gold standard reserve at any rate until the Indian currency system has been worked for some time under the new conditions.

12721 What at first sight in your apprehension are the advantages which accrue from the maintenance of the separate gold standard reserve?—I should not care to put too much emphasis on the word 'separate'. I believe that a currency reserve of any kind or let us say a foreign exchange reserve might be exceedingly useful for the purpose of inspiring confidence in the future of the Indian currency.

12722 Would that be necessary as long as the minimum proportion of the metallic holding in

a unified reserve was sufficiently large?—It might not be necessary with 30 per cent. I would not like to pledge myself on that. What I do feel is that India would be trying a great experiment about which the rest of the world might be a little doubtful, and it would be desirable supposing a sudden break in world prosperity came about in the next ten years that India would have something like a gold reserve to fall back upon in case of having to meet a very heavy adverse balance for the time being.

12723 I can follow your argument to the point of it being necessary for India under the circumstances of the conditions of transition to hold adequate reserves to fall back upon in the case of unforeseen emergencies but does the argument apply to the extent of saying it is desirable to hold two reserves, in the segregated form of a distinct gold standard reserve in addition to the reserve which is behind the note circulation of the country?—Well I am really rather indifferent as to the form in which the gold reserve is held—whether it is held segregated as the property of the Indian Government or whether it is in some form or other transferred to the Imperial Bank. What I do feel is that it is very desirable that every central bank should hold certain assets which it can dispose of quickly in the case of a break in trade.

12724 That really applies rather to the character of the assets than the account on which they are held?—Yes.

12725 With reference to your proposals in paragraph 8 how would the external value of the rupee and note be maintained during the transition? Do you accept the obligation in the first sentence of paragraph 4 (1) of the memorandum on the proposed gold standard scheme? If you do accept that obligation during the transition period is it possible to undertake the obligation if you open the mints to coinage?—Well I am not prepared to accept paragraph 4 (1). That is the particular danger that I want to ward against. I do not want the Indian Government to be faced with a quite unknown demand for gold while this scheme is in its preparatory stages.

12726 Even for gold bullion?—Because after all I should have thought it was fairly easy for the bullion merchants in India to collect the minimum amount of silver or legal tender. I think the obligation imposed on the Indian Government to coin gold in return for a tender of gold bullion does not logically depend upon the acceptance of paragraph 4 (1).

12727 No. Not then supposing we do not contemplate the obligation in paragraph 4 (1) of the maintaining of the exchange value of the rupee during the transition period by what method could it be maintained?—I beg your pardon. I thought you implied that paragraph 4 (1) meant that the Government should sell actual gold. I think the maintenance of exchange involves such action on the part of the Indian Government that the actual rate of exchange for sterling in terms of the rupee does not fall below the gold export point.

12728 What would that action be if it is not the sale of bullion?—Well it might be the sale of drafts on the gold standard reserve. It might be merely caution in the issue of fiduciary notes. I mean the limitation of the Indian currency in itself would be sufficient to keep it exceedingly steady without necessarily burdening the Government with a very large obligation of selling gold against legal tender.

12729 But in any currency system is it possible to rely upon a limitation of the currency to maintain the exchange without acceptance of any obligation as to provision of means of international payment at certain rates?—Well I think

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that at the moment the exchange policy both of the Austrian National Bank and of the Reichsbank is really based on the principle that you should keep the internal volume of the currency to that figure at which the exchange will be stabilised. I do not think that either of those banks accept any statutory obligation to sell exchange for currency and certainly not bullion to anybody who cares to ask for it.

12733 Practically the maintenance of an exchange standard, such as this would be during transition must depend must not it on the currency authority being prepared to provide some means of international payment at the rate which it is desired to maintain?—It may mean that but I do not think it necessarily means that.

12734 Without that your internal currency is never to any extent contractible? Well I do not accept the view that currency is not contractible.

12735 On the contrary I should have thought that every currency was always contractible to some extent however carefully you restricted it?—Granted that, then I think any currency authority can always keep its exchange steady. It has only got to contract its currency enough.

12736 Can a country contract its currency by any other mechanism than by providing a means of international payment against whatever portion of the internal currency is capable of being contractible at the time at which the exchange is made? I should think in the case of Indian currency, where the currency is always flowing back to the Treasury chests the simple way to contract the currency is by cancelling the invested portion of the reserve as the currency flows back in payment of taxes. There is no objection of Government to re-issue fiduciary notes unless it likes. May I add that I should be prepared to recommend that the Indian Government should sell exchange on London during the transition period but not that it should be obliged to sell gold for any purpose.

12737 I thought possibly you would add that to your analysis. That being so during the transition period you would have an exchange standard? An exchange standard with the Mints opened to the coinage of gold.

12738 But the central authority providing nothing but foreign exchange? Quite so.

12739 There is one more question upon the quantity of gold required and I should like to ask you. I am afraid this is rather a long question. I will just give you the information I want to ask you about. You say in paragraph 3 that the gold available for world monetary purposes will be £23,000,000 in 1920 and £15,000,000 in 1926. I have before me the quinquennial averages to 1924 of gold available for monetary purposes according to certain estimates. May I just give you the figures. In 1909, £35,000,000; in 1914, £19,000,000; in 1919, £35,000,000; and in 1924, £31,000,000. Accepting those figures as the quinquennial averages of gold available for monetary purposes, do you consider that the amounts of £23,000,000 and £15,000,000 would be sufficient without considerable adjustments of reserves in the Central Bank? Taking those figures then in 1920 my figure would be £23,000,000 and in 1926 £15,000,000. I should like to say two things on that. First I should like to reconsider my figure of world industrial consumption. I wrote this memorandum under considerable pressure and I am not sure whether my figure of industrial consumption is correct.

12740 Do you mean on the small side or on the large side?—I took no account as I ought to have done first of the fact that the industrial consumption is not entirely provided out of new supplies of gold. There is a considerable re-melting of old gold for industrial purposes.

12741 That would reduce your figure?—That would reduce my figure. Next I am not quite sure whether this United States figure which is

taken out of the general tables included the United States itself. I should feel obliged if the Commission would allow me to check that figure again before regarding it as in any way authoritative.

12742 Perhaps you will alter it in the proof?

Yes but apart from that the more relevant point is that I do believe that the post-war situation with regard to monetary demands for gold is entirely different from the pre-war one.

12743 That is dealt with to some extent, in your memorandum? Yes. I think it is very important to emphasise how different the constitution of the monetary system is to-day from what it was ten years ago.

12744 With the reservation as to your figure supposing we assume the figures which I have quoted for gold available for monetary purposes what do you consider is the bearing of that upon your estimate of £23,000,000 and £15,000,000 as the amount to be available in 1920 and 1926 and the effect that that would have upon the gold policy of the central banks?—Well I feel that the central banks may, in the future have to work with smaller and perhaps considerably smaller reserves than they were working with before the war but I feel that that does not imperil in any way the operation of the gold standard. For instance I cannot see that it is really necessary for the Bank of France to maintain something like 5 milliards in gold approximately.

12745 If the central banks have to economise their reserves in this country how would that bear upon the possibility of establishing the gold currency in India? Would the two not run counter to each other and hinder and impede each other?—Well I should say if India went on to a gold standard and there was an additional demand for currency purposes in India that would in fact force economy upon the central banks.

12746 If economy is being forced upon them from considerations of the inadequacy of the world's gold supply that may land them in a difficulty?—I really think if one looks at the actual reserves of some of the banks one could cut very considerable slices out of those reserves without doing any harm to anybody.

12747 Then your expectation of the avoidance of difficulties is based very largely at any rate upon your belief that the central banks of the world might safely reduce their gold reserves?—Yes apart from that there is the quite unknown factor of the future gold output and economies in the mining of gold.

12748 Assuming that these figures throw some light upon the situation as regards the possibility that the central banks of the world might safely reduce their gold reserves do you think (apart from one's own opinion) that it is likely that they would do so under present conditions—of novelty and a certain anxiety?—In fact some of them are ready to do so but I think it would be rather ungrateful to play the part of a prophet in this particular matter. I think events would force them to that.

12749 One such possible event being the establishment of a gold currency in India?—Quite so.

12750 An event of that sort which would force upon them the reduction of the gold reserve below at any rate what they consider to be necessary is not one which would increase the general confidence of the world in the gold currency system?—I feel that as things are at present the question of the size of the reserve has

\*The figure as stated in the memorandum includes the industrial consumption of the U.S.A. For 1922 the gross U.S.A. consumption amounted to \$59.8 millions, the net consumption (i.e. new gold) amounted to \$36 millions. If this relation between gross and net consumption held true of the world as a whole the net consumption would be in the neighbourhood of 60% of the gross. T.E.G.

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never been argued scientifically in any way by the central banks. I would find it exceedingly difficult to say that the present reserves are scientifically arrived at in any sort of way.

1243. They are arrived at, I suppose, by considerations partly scientific and partly according to the business man's estimate of the large considerations affecting the political circumstances in his own country—the views of the business men in control of the central banks of the various countries—yes, but I think empiricism in such matters may be overdone. In fact, I think the gold reserves of the world in the last ten years have hardly played any role at all in the restoration of sound currency conditions.

1245. Psychology is also a science, or claims to be. Would it be safe to disregard in establishing the gold reserves of the world, any effect that any reduction below the present general level held by the central banks would have upon the confidence of the commercial community, and also on the general public in these countries?—Well, I should say that you can always keep confidence in the currency provided you keep its quantity adequately limited. But I would agree with you in saying that if a proposal were suddenly made to the central banks that they should cut down their reserves, let us say by one half within a short period of time that that would probably upset the business man, but I am not anticipating that the gradual reduction of reserves, and that is all that would be necessary, is of that order of events. After all, in a generation hence it may be regarded just as normal that the reserve should be say, between 20 per cent. and 30 per cent. as before the war it was regarded as normal that it should be between 50 per cent. and 60 per cent. or 40 per cent. and 50 per cent.

1250. This is perhaps a course of evolution which one may hope for but it would be some what imprudent to count upon as an aid in making practical plans at the present time—I think I would be inclined to say that the currencies of the world in recent years have not been based upon gold in fact. The value of the currency has been based upon the limitation of quantity, and the gold reserves have hardly played any role at all in maintaining their value or in maintaining confidence in them.

1251. There are one or two scattered questions which I should like to ask you before I conclude my examination in chief. Do you consider in a country like India where I apprehend you only contemplate a small gold circulation in proportion to the total circulation—yes.

1252. — that there is any likelihood that in a time of weak exchange the currency returned to the currency authorities would take the form of the cheaper materials silver and paper?—You mean the gold once it is out, would never come back?

1253. I will not say will never come back but would not the tendency be for the other forms of currency to return first?—Well, I think that is largely a question of the denomination of the actual gold coin. If it were a fairly high denomination it would be too expensive to hoard easily.

1254. How does the denomination of the gold coin affect its movement into hoards? The bigger it is I should have thought the more convenient it is for hoarding? But I should also say the bigger the coin the more difficult it is to acquire it in the sense that the sacrifice of other things which would have to be undergone to get it would be greater.

1255. Why not? Because I want to lay as do 100 rupees, surely the most convenient form in which I could do so if there were 100 rupees on the market would be by means of the 100 rupee coin?—For this I do not deny that. What I meant was

supposing you could possibly have a one rupee gold coin in circulation, it would be very much easier to acquire that and to accumulate a hoard of them gradually than it would be to acquire the 100 rupee coin.

1256. The point of my question is this. What reliance do you place on the gold in circulation as a fortification for the reserves in times of a bad monsoon and weak exchange?—Upon that I would not like to speak. I really do not know.

1257. That would depend too much on Indian conditions. Can we say from the experience of other countries that it has been found that you can count upon gold in circulation as a reliable second line of defence in the banks' reserve, in any practical sense?—Well, of course, you can draw gold out of circulation and it was in fact done in this country in the first years of the war by issuing fiduciary paper, but I do not know that I very much believe in the theory that gold in the pockets of the people is very much of a reserve if you want it in a hurry.

1258. In paragraphs 6 to 8, and particularly in 6 (2), you observe "If the Government is to get rid of silver, let it do so as soon as possible, and not disorganise the market for ten years." I am not sure that I understand the content of the phrase "as soon as possible." Do you think it would be possible to sell silver on any large scale? Do you think it would be possible to adopt a policy, and for it to be known that the policy is adopted, of selling silver on a large scale, however carefully it was to be done without a disorganisation of the silver market?—No, I think if the Government of India were to announce that it is going to sell silver, it would in any case cause a bear movement in the silver market, but I feel that there is some virtue in getting the worst of it over in as short a time as possible. My own proposals would cut the period down from ten years to five years. I am not sure whether it would not be better to try and get rid of some 20 crores within a shorter period of time than that. It might be better to cause a very considerable fall in the price of silver immediately, rather than cause a sagging price of silver over as long a period as 10 years.

1259. It would be a question of a choice of evils?—Certainly.

1260. But on the whole, you think that with a swift and greater blow the evil might be less than with a longer but less severe series of blows?

Yes, because I think the market would recover sooner from a heavy blow given once and for all than from a continuous series of blows.

1261. But in some form or other in your view a disturbance of the silver market is not to be avoided if you adopt this policy?—Not if you adopt this policy.

1262. Finally I understand your proposal is that the future increments of currency should be in the form either of gold coin or of gold certificates against gold coin?—I do not know whether you are referring to the scheme in paragraph 10?

1263. Yes. We now come back to the final point of your proposals?—That is merely a proposal I have put forward which I do not myself adhere to very strongly to suggest that it would be possible in the interim period of five years gradually to transfer the note circulation from the Government to the Imperial Bank but I would not expect that in those five years the Imperial Bank would have the right to issue fiduciary currency in any way. It would merely have the right to issue gold certificates.

1264. I want to refer to a suggestion with your proposals you get over a small practical difficulty which is this. The great need in the Indian currency at the present stage is many

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this country taking fright and applying the orthodox measures?—Well, perhaps I would not go so far as to say that the banking authorities would get into a panic. What I did imply by the phrase "create alarm in the London market" was that the outer market would argue that any drain of gold from the bank for India would mean higher bank rates for some considerable period of time perhaps, and that would create alarm not in the sense of creating alarm as to the future stability of the English currency but apprehension as to the future course on money rates.

12756 I appreciate that but if that set of circumstances arose the effect would be of the bank rate being raised and prices being lowered with their natural repercussions on other countries. It would in fact be a fight of the central banks to retain their gold if that tendency exists and we have to take into account popular sentiment. If that tendency exists the raising of the bank rate and the lowering of prices here would be followed immediately, or very soon, by other countries doing the same thing and would not the end effect be to appreciate the purchasing power of gold that is to say, cause a fall in commodity prices?—I should say to that if the bank rate were to rise considerably above New York re-discount rate that the Federal reserve system would if anything welcome a loss of gold to the London market because its reserve percentage is so high that in fact it has great difficulty in preventing the expansion of currency to the United States not running its powers to control it.

12757 But if the Federal reserve banks felt that the drain might affect their own credit structure they would apply the screw as well as they do over here?—Undoubtedly but I feel with a reserve of between 60 and 70 per cent. that it is going to take a long time before the Federal reserve system is going to feel any apprehension about the loss of gold.

12758 Will you tell us your views with regard to the statement that has been made in several quarters that the economic progress of America is such as to absorb the present redundant gold holding within a period of 10 to 15 years. Have you any views on that?—No I have no views on that. As you probably know, the Federal Reserve Bulletin publishes a statement of money in the United States at periodical times, which seems to show that the aggregate demand of currency per head of the population is in the neighbourhood of 40 dollars per head so that the aggregate amount for currency in 10 or 15 years would in effect depend upon the growth of population in the United States. I have not really made any estimate of what the population of America is going to be.

12759 Would that depend entirely on the growth of population? Well if anything

12760 Or would it not rather depend on the total volume of production in the country?—I think possibly that if the rate of American production were to rise very considerably in the next 20 years the demand per head I might go up but I should counter that by the suggestion that the growth of banking in the United States, if anything is likely to lower the demand for coin per head of the population so as to be not a demand for coin so much, but a demand for bank currency.

12761 When Germany adopted the gold standard in 1871 could you tell us the repercussions that had upon the world's gold prices—first of all on prices in Germany and then on world prices?—In Germany the situation was very confused as you know owing to the boom years 1871

to 1873, and German prices rose quite considerably in those years, and then fell quite considerably afterwards. There was, in fact, a very sharp exchange crisis in the year 1873 itself. The sea gold which had been acquired at great cost by the German Treasury started floating out in 1873. The world prices started falling, from about 1873, or the year after 1873, and continued to fall until about 1880.

12762 Did that fall coincide with a diminution of gold production?—This is the great historical controversy of the 19th century. I am not sure that the actual output of gold fell. I do not remember what the statistics of gold production actually were. Of course there was a very largely increased demand for gold.

12763 I give you the figures. The value of gold production in the quinquennium to 1874 was 120 million sterling and it rose in the quinquennium to 1894 to 151 millions, yet commodity prices, according to the data which I have before me, fell from 100 in the ten year period of 1866-1877 to 60.9 in the year 1896, and that in spite of an increase of the gold production by something like 25 per cent. I am asking you that question because you seem to brush aside rather lightly the contention of some authorities at any rate, that economy in the use of gold is desirable if the present gold price level is to be maintained. Do you not agree that, having regard to the past experience and the prospects so far as one can see them, note has to be taken of these circumstances if the stability of the purchasing power of gold is to be maintained?—I should of course not want anybody to disregard the experience of the 19th century but I should also feel inclined to say that the conditions in the quarter of the century between 1873 and 1900 are really so far as currency theory is concerned very different from those of the present day. During that quarter of a century you did have an actual transition of the greater part of the European continent and of the United States and of various South American countries to the gold standard. That transition absorbed more gold than the transition of a single country to the gold standard would involve now. Moreover, it was the period when the superstation that central banks required immense quantities of gold was at its height and the transition, let me say, from the silver standard to the gold standard could have been accomplished with a very much smaller reduction of the price level if the central banks had not been so keen on accumulating a very large reserve which they never used.

12764 Do you agree that economic progress during that period was far slower than it is to-day?—No I would not agree to that. I would rather say the rate of progress was considerably greater.

12765 Would it be true to say that if it were to happen that gold did appreciate and prices were to fall it would have a serious repercussion on all countries including India?—I do not know that I should like to commit myself to the statement that a long period rise in the value of gold is serious because I would argue quite apart from the question of gold production supposing that were all solutely steady an increase in world production would drive prices down.

12766 Is not that within the command of the currency authorities?—I would admit if you wanted to do so at the present time it would be possible assuming certain currency arrangements, to keep the price level absolutely steady.

12767 Is not that the aim of all monetary policy to keep prices stable?—I should feel inclined to say that some currency authorities in arguing for the stability of the price level have rather overlooked the point that in stabilising



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of those hoards would be poured out on to the Government's head at once, then I should revert to the original proposal in the proposed scheme and only introduce full convertibility at the end of 10 years because at the end of 10 years your silver hoards would have disappeared owing to the growth in the demand for small change circulation.

12913 Was I right when I said that the only provision under your plan which you are making for the possibility of conversion of notes and rupee hoards is the gold which you hope to get by restricting the issue of notes against gold of 100 per cent. cover?—No. My proposal is that in any event the Government of India should sell enough silver to bring up the existing reserve in the paper currency department to the minimum requirements under the new scheme.

12914 You suggested that the method employed by Germany of selling gradually, and the proposal put forward by the official witnesses of selling silver gradually is not a good one and that it ought to be sold immediately. Does not that depend upon the capacity of the world for the absorption of silver?—Undoubtedly, and one of the reasons why I propose the scheme which I actually do is that the quantity of silver to be sold would therefore be cut down and the possibility of rapid sale would therefore be increased.

12915 But supposing that silver were to come in in large quantities in substitution for gold how would you proceed? Let us suppose there are 100 crore of silver rupees coming in and that gold is demanded in exchange for it. Obviously unless you contract a loan you have to sell your silver. The question is, can you sell 100 crore of rupees of silver remembering that the total annual consumption of silver at the present moment is in the neighbourhood of 210 million ounces, at which the price remains stable. If you add to that something like 40 per cent. can you hope to sell that silver?—You cannot hope to sell it without depressing the price of silver and losing on it.

12916 And if you do depress the price of silver what reactions will that have on silver using countries such as China and the East generally? Would that not seriously disturb their price level—raising prices there and impeding the trade of India with those countries?—That depends on how the thing would work out. If we take the case of China I should say that if the world price of silver fell Chinese prices would not necessarily alter if the rate of exchange between China and gold using countries adjusts itself to the lower value of silver.

12917 You do not think therefore that this adjustment will cause a disturbance in trade?—Every considerable drop in the value of the precious metals in terms of the other metal for the time being of course causes a certain amount of difficulty. I would not dispute that for a moment but I doubt whether it would be as serious a factor in international trade as perhaps the 14th century thought.

12918 Not even for India which trades largely with silver using countries?—I think it depends entirely on how rapidly prices and exchange between silver using countries and gold using countries would adjust themselves to the new position of silver.

12919 Can you ignore the effect upon the savers of India in the form of silver which have been variously estimated but which I believe are something in the neighbourhood of 600 crore of silver or possibly more? Do you not think it would have a detrimental effect upon the internal economy of India if its chief store of wealth is heavily depreciated?—In so far as the

Indian hoarding has taken the form merely of the hoarding of silver ornaments, bangles and so on, no immediate danger to the Government of India will arise. The danger to the Government simply arises from the presentation of the actual rupee coin, and not of silver. I would agree that a very serious fall in the world value of silver would, of course, inflict severe loss upon the holders of silver on a large scale. That is why I desire to do everything I can not to throw great masses of silver out of circulation in India.

12920 (Sir Legnald Mont) In your estimate of the future gold requirements of the world you have pointed out that currency conditions to-day have completely altered, and that there is little gold now in circulation. Do you anticipate that that will be a permanent feature of the future currency of the world?—Yes. I see no reason to suppose that gold is really more convenient as a means of circulation than paper money which is convertible into gold. In fact I do not believe that the populations of countries like England and the United States will go back to the use of the gold coin.

12921 What about the countries on the Continent of Europe?—Some of those countries at any rate even in pre-war days although they had the opportunity of acquiring gold coin on demand did not in fact use it. The most striking case of course, is Austria where the Austrian National Bank tried in fact to put gold coin into circulation and found that people preferred Austro-Hungarian bank notes.

12922 Do you think they will not use gold because they have found that paper is a more economical and convenient form of currency?—I do not know whether, from the standpoint of the average user of currency, the question of economy would enter into it. I think it is certainly more convenient that is to say, the ordinary person finds he is not as likely to lose a pocket book containing Treasury notes as he is to lose individual foreign coins, and also he can carry a larger quantity in a smaller bulk.

12923 But the policy of the Governments would be guided by considerations of economy would it not?—If you ask me on the question of economy then I think from the national standpoint there is no economy in this sense—that if the total paper currency were backed to 100 per cent. by gold that particular type of currency would be more expensive than an ordinary gold currency because you would have to keep the gold coin in case your notes were presented for conversion and you would have all the expense of the management of the paper currency as well. If you have a paper currency with only a part reserve that is more economical than a gold currency with no paper at all.

12924 Does any country have its paper currency backed entirely by gold?—There is in circulation in the United States a particular form of note known as the Gold Certificate and that is fully backed by gold.

12925 That is part of the currency?—Yes.

12926 But not the whole of the paper currency?—No. You have the Federal Reserve Note which is backed to about 60 per cent. by gold and you have the United States green backs which are not covered by gold at all.

12927 And the European currencies?—I do not think anywhere on the Continent you have a gold certificate they simply could not afford it.

12928 And they are not likely to have a paper currency fully backed by gold?—I should say it is most unlikely.

12929 So that considerations of economy do and will come in?—Certainly. When you asked me originally about economy I was looking at it

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the absolute figures of the currency but that portion of the currency which is actually used as such within a given period of time you do reduce the quantity of other currency that you want that is to say, if the demands of trade and population in India are met by currency which is now hoarded and playing no part in the actual transfer of goods and services coming out and playing a part the requirement of gold would be *ipso facto* diminished.

12843 But if gold is required to take the place of that currency to enable it to come out, how does that reduce your requirements of gold?—I do not believe that gold would be required to bring the currency out.

12840 What do you think would happen to the hoards? What would the holders of them put in instead of silver?—I would suggest that if you were strictly to limit the new currency issued by the Government of India itself you could squeeze the hoards a little bit. People would in fact fall back on the hoards if they could not get currency elsewhere.

12850 You mean the size of the hoards would be reduced?—Certainly.

12851 By forcing up the value of the rupee?—Certainly.

12852 And either lowering prices or forcing up exchange?—If you forced up exchange you would have some gold coming in of course.

12853 If you contract the currency to the extent that you force it out of hoards you must surely either lower the prices and force up exchange or bring in gold to raise the currency to the level required to keep prices stable?—Certainly I have never denied that my scheme involves the possibility of prices falling in India enough either to bring the currency out of hoards or to attract gold. In fact that is the essence of my scheme.

12854 What I am trying to get at is how the existence of these hoards and the forcing of silver out of hoards would in any way reduce the requirements of gold because if you put a scarcity value on the present currency you must either force up exchange or let gold come in to restore the volume of the currency?—May I put it in this way. Supposing you keep the existing volume of Notes plus silver rupees fixed there is then in consequence of the normal growth of population and trade in India an increased demand for currency. If there are no silver rupees in hoards at all exchange will rise to gold import point. Gold will be presented to the Mints and 20 rupee gold pieces will be in circulation. That is one alternative. The other alternative is that the quantity of silver in hoards is very much larger than I anticipated. In that case since the population is actually demanding a larger quantity of media of exchange in the shape of coin under 20 rupees (because the mass of payments is under 20 rupees) that will bring silver out of hoards.

12855 Without replacement?—Without replacement and the increase in the total effective circulation as distinct from the total volume of rupees in existence will by satisfying the Indian demand for currency reduce the total quantity of gold imported during the same period of time.

12856 Why do you say that the rupees would come out without replacement?—Suppose I have a hoard of a lakh of rupees—100,000 rupees—and other people want small change and want those rupees. I would not give them those rupees out of my hoard without putting something in in their place?—Of course it does not work quite in that way.

12857 I want to reduce it to the simplest terms in order to follow out your argument?—I should be inclined to argue that if there was a shortage

of currency in India some prices would fall, including the prices of certain goods and the prices of certain services and that under those circumstances it might pay individuals better, who possess a store of rupees, temporarily to withhold the sale of their goods and instead put into circulation some of their hoarded Notes. After all if the prices of certain things in India do fall, that is equivalent to saying that silver rupees have a higher purchasing power.

12858 Then we come back to the same point do we not?—If you contract your currency and force down prices you will either force up exchange or force imports of gold?—I am not in the least denying that you might not have both events taking place at the same time. You might have a slight fall of Indian prices silver coming out of hoards, and at the same time a margin of gold being imported. I do not exclude that, but I would say that the degree to which the new supply of media of circulation is composed of gold or of silver depends partly upon how much silver there is in hoards and how much of the hoards would come out.

12859 I will not trouble you further on that point. In paragraph 9 you contemplate I understand selling off the whole of the surplus rupees in the currency reserve after providing for the retirement of the small Notes?—Not entirely. I make the suggestion, either in that paragraph or in the previous one, that a certain quantity of silver would always have to be maintained by the Currency Department and that only the difference between the silver required to replace small Notes and the silver required permanently—say 20 crores of rupees—should be sold. I say 20 crores within the next five years. I have allowed 20 crores for the small Notes plus another 20 crores for conversion purposes for the higher denomination of Notes.

12860 You allow 20 crores for that?—I allow 40 altogether from the 20 which would not have to be sold.

12861 It was suggested by some witnesses that 20 crores was too small a figure, but I will not trouble you with that point?—I should be very glad to hear that it was. I am very anxious to avoid upsetting the silver market.

12862 (Sir Reginald Mait) It has been suggested that we ought to keep a minimum of 40 crores.

12863 (Sir Purshotamdas Thakurdas) In the latter part of paragraph 1 of your memorandum you give three reasons why you recommend a gold standard for India. The first of these has been called a sentimental reason. I do not know whether that has for its basis the fact that as gold standard would meet the wishes of the people of India it would inspire greater confidence on their part in the currency system of the Government of India?—I based my opinion partly on the fact that such Indian literature as I have read on this question has constantly harked back to the Fowler Committee and its recommendations for a gold standard, partly upon press cuttings of the Indian evidence given before this present Commission in India itself and partly upon what I have regarded as a fairly notorious fact namely, that in fact Indian public opinion did demand the gold standard. I am not in a position to say that Indian public sentiment does demand the gold standard but I take it as a fact.

12864 You recommend compliance with it because that compliance would inspire greater confidence on the part of the people in the currency system of India?—I do not know that in fact confidence in a currency is really dependent in the long run on the form which that currency takes but rather upon the stability in its value. I should not myself argue that one

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ought to introduce the gold standard because in the long run Indian public opinion would have greater confidence in it than it would have in the gold exchange standard. I would argue the case on the ground that Indian public opinion does in fact want, and that as far as one can see no very great dangers would arise anywhere from the introduction of the gold standard.

12565 You attach so much importance to compliance with the wishes of the people in this matter that, irrespective of the reason behind it, if it did not do any harm you would fall in with their wishes?—Yes, I think I would.

12566 It has been pointed out that after the war people in Europe and in America have not been demanding gold currency. All the countries which have been named, such as America and England did have gold currency for decades before the war, when gold currency was within the reach of those countries, and it is only because some of these countries cannot afford a gold currency that they are compelled to go with out gold currency in circulation and trust a paper currency backed by gold?—It would be very difficult to say what would have happened to the paper currency experiments of the war and the decline in the demand for gold in circulation which has followed those paper currency experiments if the world had not had a gold standard with gold in circulation in pre-war years. The extent to which gold was actually in circulation in different countries varied very considerably, even in pre-war times.

12567 The extent to which it varied was after the people had satisfied themselves that gold was available whenever they demanded it and they therefore preferred the more convenient form of currency, namely paper currency?—The one succeeded the other. The paper currency of the present day did historically follow the larger gold circulations of the 19th century. Whether the confidence in the present paper currency is in any way due to the fact that gold previously circulated I would not like to say. After all such confidence as there is in the present paper currencies is mainly dependent on the question of their proper management. You can get people to believe in any sort of currency provided you keep the value of the currency up in the long run.

12568 Countries which can afford gold currency have taken to gold currency after the war—such as South Africa?—I believe that some countries can afford any currency it likes provided it faces the costs fairly and squarely.

12569 The question of facing the cost is one absolutely for the people of a country to decide is it not?—Yes. If they like they can have an economical currency which is stable. If they prefer some other form of stable currency I think they ought to be allowed to have which currency they like provided it does not in fact upset the world as a whole.

12570 I take it, then that you are absolutely against the Government of any country forcing on the people a form of currency on the mere ground that it is more economical?—'Forcing' of course is rather a strong word. I should be inclined to say that economy in a currency is not the only aspect of the currency which ought to be considered.

12571 Therefore if anything was done on the consideration of economy alone you would disapprove of it?—It is so difficult to balance economy as a single factor against other factors. I would say it would be unwise to over-emphasise the element of economy in a currency if other considerations were weighing against the adoption of a particular currency.

12572 You would not look upon economy as one of the important factors in deciding the question?—It all depends upon the quantitative result of one's investigation. If the economy was very large on the one hand and the advantages in other respects were very small on the other hand then of course I should consider economy. One has to weigh the thing and not overstress any one single factor.

12573 I thought Dr Gregory you said that from that point of view you would leave it open to the people demanding gold currencies to decide whether they were prepared to bear the cost?—Certainly. If I were arguing this matter out in a sort of general way as a politician which I am not doing I should point out to the people that of course in the long run it was desirable that they should have the currency they wanted but incidentally if they wanted one particular form of currency rather than another that those would involve a certain burden on them which they could avoid if they chose some other form of currency.

12574 You would point that out and leave it to them to decide?—I would point that out and leave it to them to decide.

12575 We have had mentioned this morning the disturbance in Germany after they took to gold currency in 1873 and thereafter. May I ask if Germany imported gold on private account for industrial purposes on a scale similar to the scale in India?—I can let the Commission have the figures. I am sorry I do not carry them in my mind. The experience of Germany to which I wanted to point was that the German Currency Reform of 1873 was built up on the assumption that the proper way to get to a gold standard was to take large quantities of silver out of circulation and replace them by gold. As a matter of fact I believe in the early stages of the Reform the gold introduced was mainly acquired by the German Government itself and the danger I wanted to point to was that the German Government started selling silver on a large scale found the world price of silver was falling and discovered also that the whole of the silver market was upset so that in 1879 they finally decided not to withdraw any further silver coin in circulation and not to sell the remaining stocks of bar silver which they possessed.

12576 I am afraid I did not make myself clear. I wanted to ask whether Germany imported large quantities of gold for industrial purposes and for non-currency purposes before they took to gold standard and gold currency?—For industrial and non-currency purposes. I have not got the figures in my mind. I think there was a certain importation of gold on industrial account but how large it was I really do not know.

12577 I was only wondering whether you could tell me roughly whether it was on the same scale as India?—I am afraid I could not. I could easily let the Commission have the figures.

12578 I want now to ask you a few questions with reference to paragraph 5 (b) on which the Chairman examined you. Have the large amounts of private imports of gold into India during the last two years actually disturbed any gold centre, either England or America?—No. What I feel about the situation in London to go back to that point is that so long as the British sterling prices are not in equilibrium with American and Swedish and Dutch prices, as they certainly were not in the early part of 1925 it does not matter how large your reserves is because your reserve will always be dissipated in the course of time until prices are in equilibrium. Consequently I wanted to make a distinction between the drain

\*The figure would appear to be some 10,000 kilos fine gold. T.E.G.

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of gold resulting from a reorganisation elsewhere and a drain of gold resulting from a lack of equilibrium. If the Indian demand for gold in the last few years had not been as large as it actually was, so long as English prices were not really in equilibrium with prices elsewhere the absolute size of the reserve might have gone up somewhat, but you would have lost rather more than you did lose actually.

12575 During the last year the Indian demand for gold on private account has been much greater than it has ever been in the last 25 years. In that year it was 70 crores and in the following year it ran very close to that figure. Have these large imports of gold into India disturbed the money market here or in America?—I think that is a controversial point.

12580 I wanted to ask whether you do or do not know if these large imports of gold have disturbed the money market here or in America?—I do not know.

12581 No suggestion has been made either by you or by any other witness who has appeared before the Commission that imports of gold into India on private account—that is for industrial and other purposes—should be in any way checked or controlled. If you are really to consider the interests of the countries holding gold and from which India may have to draw gold for her currency purposes may it not be urged that import of gold into India on private account should be controlled in order that the financial conditions of these countries may not be disturbed. Have you any views on that?—I do not think it could be done very easily, to begin with, and in the second place I do not think anybody will argue that in three or four years the world supply of gold will be insufficient. It is when you get to about 1910 that we shall really have to worry.

12582 Regarding the point to which you refer in the last reason which you give in paragraph 1, I should have thought there were two schools in existence amongst experts one holding that the supply of gold is so small that it is a danger to the world and the other holding that the supply of gold is big enough for all the requirements and uses of the world?—That is so. At the moment Professor Cassel for instance of Stockholm is the leader of those who think that the world supplies of gold are gradually falling off in rather a dangerous way, and writers like Mr. Keynes are on the other hand of the opinion that whatever happens the value of gold is likely to fall.

12583 I may tell you that I do not propose to put any question in that connection. Where experts differ I feel myself rather incompetent to ask questions at this stage. I therefore restrict myself in my questions to you to the problem which faces India. India imports large quantities of gold on private account. No one has suggested interference with it. You yourself do not think it desirable and you said just now that you did not think it would be easy. The only question then is what are the requirements of gold for currency purposes in India?—Regarding that part it has been said that if the Government of India introduced gold currency rupees and notes may be tendered for conversion into gold coin. You pointed out that the people would want some currency for their daily purposes. What is a possibility that every piece of currency either silver or paper, may be tendered for conversion into gold, do you think it is a possibility in which there is anything which should be seriously considered?—I should be inclined to say that if you were absolutely certain that the hoarded silver rupees were in the neighbourhood of 250 crores and if there was a very strong probability that as soon as convertibility is declared the

whole of the hoards would be presented for conversion, it would not make any very great difference to my general attitude towards the introduction of the gold standard, but I should postpone convertibility until by starving the currency of small change, a large part of the silver in the hoards had drilled out into circulation in the normal way. That is the difference it would make.

12584 You share the apprehension that, if gold currency were made available, paper and silver currencies may be offered for conversion into gold coin?—I have to take the questions which members of the Commission asked and consider them. I believe that if you restrict other forms of currency sufficiently, the country cannot lose its gold circulation internally or externally, but, of course the price which it has to pay for retaining the gold in circulation may be a fall in prices.

12585 Gold has been available to the people of India freely during the last two years or practically ever since 1911.—By Government.

12586 No. Is private import? They have been able to buy it freely and to get it at much cheaper prices than they used to get it before the war. Therefore the requirements of the people of India for gold have been, may one safely say fulfilled from year to year? Do you apprehend any reason for people rushing for gold if the Government put up a gold coin?—No, I do not apprehend it. I think it is a possibility, but whether it is a probability is another matter.

12587 In the course of your earlier examination I understood you to say that the ideal system of currency for any country is gold in the Treasury and paper in circulation?—I do not think I did actually say that, but in fact I do believe that that is the best form of currency.

12588 That would be the ideal which you would like India to reach?—Yes. I think I would not like very large quantities of coin actually to circulate, but I do think that gold notes ought to circulate, and that all forms of currency should be convertible into gold.

12589 Would you attach any importance to a suggestion which has been made before the Commission that the giving to India of a gold standard and gold currency may finally lead her to the ideal of gold in the Treasury and paper in circulation?—All these questions involve certain presumptions in regard to the psychology of the average Indian, which I am not in a position to give an opinion upon. I do not know, under the form which the gold currency is to take in the proposed scheme where you have in fact freely convertible paper gold notes.

12590 I am sorry I did not make my question clear. I do not expect you to restrict yourself at all to that scheme. I was wondering whether you were in a position to give an opinion from your study of Indian questions. I know you have not been to India and that you may not know the psychology of the Indian in which case I should have nothing more to ask you?—I simply base my general answer on general considerations. I regard the idea that a country can carry on without any currency at all, because everybody is so anxious to convert the currency it has got in hoards as absolutely impossible.

12591 We know examples of other countries having gold currency in the past going without it now and using paper currency?—There is a good deal to be said for the argument that if you give people what they want they very often do not want it afterwards.

12592 Regarding gold in hoard coming out in the case of a bad monsoon have you heard that before 1900 when there were severe famines in India silver ornaments were actually sold in

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12910 Then as to one question put by Sir Purshotamdas Thakurdas about a permanent ratio. The word "permanent" would mean, so far as the word is used by the Committee, so long as the main factors affecting the exchange remain constant?—Yes.

12911 (*Mr. Preston*) In paragraph 2, you make the statement. The present rupee stock, including those in the currency reserve is only about 12 per capita. I suggest that this is not an amount which provided that the total is not increased during the transition period could possibly imperil the transition to the gold standard? We have it in evidence that the working minimum which I think you have accepted this morning should be round about 40 crores of rupees?—In the paper currency reserve?—Yes.

12912 Our present holding in the paper currency reserve is about 82 crores. If we deduct 40 crores we get 42 crores left. We have it in evidence that the annual absorption of coin for the country is nine crores?—I take that.

12913 Then the balance not coming any further rupees would barely give us five years' working? Quite so.

12914 From that point of view, this would remove the whole of that 82 crores out of all calculations of what I might call the silver selling logic?—I agree. I do not think it is absolutely necessary to sell any silver at all. I was merely trying to meet the case in the proposed scheme. If it really is the case, as has also been argued, that no silver would come out of the hoards, the absorption out of the paper currency reserve would be the more rapid. I quite agree there.

12915 Will you remove from your mind for a moment the proposed scheme. It was made evident to you that the general weight of opinion in India was for a gold standard, but that that general weight whilst it called for a gold standard equally recognised the fact that to attempt to demand the 100 million sterling of gold called for under that programme would be to the detriment of India in every way. That general opinion also was fully prepared to wait for a gradual accumulation of gold for the purpose of leading up to an ultimate gold currency, should it be needed. Accepting that as a fact would that go to strengthen your statement in paragraph 3 "Taking a world view I cannot regard a demand for an extra £100 millions of gold on the part of India as likely to imperil the general stability of world credit in any way"?—Certainly. I think the only cause why one should hesitate in accepting the proposed scheme, or any other scheme, is the drain which it might be anticipated would be caused on world supplies of gold and the shock which it might give to the world market for silver.

12916 Does that very anxiety on the part of India not to disturb or in any way to menace matters in home markets or prices to her own detriment equally strengthen as applied to India.

the statement which you make in paragraph 3 to the effect that. The introduction of the gold standard does not logically or practically involve the immediate circulation of large quantities of gold. What it does involve is the extension of the use of gold in the future?—Yes. I tried to point to the fact that I believe the proposed scheme is built up on old fashioned assumptions, and that the 19th century ideal method of introducing the gold standard is one which ought not to be adopted now.

12917 Would it be a correct assumption to make that a gold standard as a system is much less amenable to mismanagement than any other system?—Yes. I think it is desirable to admit that in the modern world even the gold standard contains an element of management because there are always non gold elements in the currency but a fall in the exchange and an export of gold is I think, the best test that the currency is being mismanaged at a given moment of time.

12918 Then may we take it as a general assumption as applicable to India that a gold standard is a safer standard to apply at the present time in spite of the merits of any scientifically managed currency?—I prefer the gold standard to other forms of currency, unqualifiedly.

12919 (*Chairman*) With reference to your suggestion that the pinch for currency will bring hoarded rupees out of their hoards it was given to us in evidence that a very large proportion of silver hoards are held by the quite small cultivator and poorer classes who in a year of boom and good monsoon put aside a little reserve in view of the possibility of a bad monsoon to come but in view of the extreme variations due to the accidents of the monsoon and the very small margin above the starvation level of a large proportion of the Indian cultivators, it is really a matter of life and death to the small Indian family to have this small reserve in a good year as against a bad year. If that be so do you think a mere currency scarcity and slight fall in prices would be adequate to effect a change in such a vital habit in the uneducated Indian, and induce him to stop keeping his reserve and make him spend his money on articles which look cheap?—I do not suggest for a moment that it would result in an immediate dissipation of the whole of the hoards. I suggest if there was a real pressure in the shape of restriction of currency some of the hoards would come out. May I say that I do not build my case for the restriction of currency on the possibility that silver might come out of hoards? I want currency to be restricted because I want either silver to come out of hoards so as to prevent it from being presented for conversion into gold when the gold standard is introduced or, alternatively, that gold should be allowed to come in and that it should not be impeded from coming in by large additional supplies of rupees.

12920 (*Chairman*) Thank you very much indeed for your full assistance this morning and for your helpful memorandum.

(The witness withdrew)

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Mr JOHN MAYNARD KEYNES, CB

[Continued]

## THIRTY-EIGHTH DAY.

Monday, March 22nd, 1926.

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG, P.O.D.S.O. D.S.C. M.P. (Chairman)

SIR RAJENDRANATH MUKHERJEE, K.C.I.E.  
K.C.V.O.

SIR NORCOT HASTINGS YEELES WARREN, K.C.I.F.

SIR REGINALD MANT, K.C.I.E., C.S.I.

SIR HENRY STRAKOSCH, K.B.E.

SIR ALEXANDER ROBERTSON, M.C.B.A., C.B.E.

SIR PURSHOTAMDAS TEJAVURDAS C.I.E., M.B.E.,  
M.L.A.

PROFESSOR JAHANGIR COOPERJEE COYAKKE

MR WILLIAM EDWARD PRESTON

MR G. H. BARTON } (Secretaries)  
MR A. AVANAR }

Mr JOHN MAYNARD KEYNES, CB, called and examined

12921 (Chairman) You have been good enough to come and help us on the subject of our enquiry this morning. You are a Fellow and Bursar of King's College, Cambridge, Editor of the Economic Journal, and Secretary of the Royal Economic Society, and you were a member of the Chamberlain Commission in 1913-1914?—Yes

12922 You have been good enough to let us have a short memorandum\* of the principal headings of your evidence. What is your opinion as regards the relative advantages of a gold currency standard and a gold exchange standard?—I am aware of none except the political advantage of placating Indian opinion. I have seen arguments as to the likelihood of a gold currency bringing gold out of India. It is the only solid argument I have seen in favour of a gold currency. It is difficult to express an opinion on that, but I see no reason to accept it. A gold currency might quite possibly have the opposite effect in that gold would be a little easier to obtain than otherwise.

12923 By providing more gold you might encourage the tendency to hoard?—You would increase the facility for obtaining gold in small quantities.

12924 As a matter of fact, at present there are no difficulties in obtaining metallic gold for ornaments, etc.?—I am not well informed as to the size of the units in which gold can be conveniently purchased. I was under this impression that a gold currency might slightly facilitate the obtaining of gold in very small quantities.

12925 By suppressing the facilities for obtaining the smallest possible unit in the shape of gold coin?—Yes.

12926 The smaller the gold coin the greater that opportunity?—Yes.

12927 What are the possible disadvantages of a gold currency system such as is proposed in the memorandum which has been submitted to you for your consideration?—I hold strongly that if there are no great disadvantages and if the matter is one relatively of indifference, then it is better to placate Indian opinion by conceding what is desired even though one may think oneself that Indian opinion is misguided. It is not so much a question of deciding what is ideally best, in my opinion, as in judging whether there are grave disadvantages in the proposed scheme. The measure of these possible disadvantages seems to me to depend first of all upon the effect on the international value of gold, secondly, the effect on the London market, thirdly, the effect on the international position of silver, and fourthly the financial cost to India.

12928 Take these in order—first of all the effect on the international value of gold—I do not lay great stress on that. The figure of £103,000,000 has been suggested. I think that could be spared from

the world's gold reserves and need have no material effect on prices or on the supply of credits. I emphasise the word that it need not because I quite agree that it might. It would depend upon the policy pursued. I mean that I see no reason why a policy should not be adopted which would prevent a gradual withdrawal of that amount of gold from having any sensible effect. Gold is now not used in circulation to any extent worth mentioning anywhere. The amounts of the gold reserves of the world are arbitrary within wide limits. There is not much reason why they should be the present figure rather than another figure. We could support a much higher price level with the existing reserves and equally we could also have a much lower price level without materially affecting them. The price level depends not on the quantity of gold in the world but on the policy of the central banks as regards their reserve proportions.

12929 The policy by which the disturbing effects might be avoided would be the policy of the central banks of the world?—Yes.

12930 And it is they who might in your opinion, avoid the disturbing effects by reducing their reserves?—It seems to me that it might easily be done because this sum is not very large spread over some time in relation to the normal movements of gold.

12931 You said that in your opinion £103,000,000 could be spared from the gold reserves. Where would it come from, in the first place?—It would probably come first of all out of the current production of gold. There is a production of gold at present in excess of the non-currency demand, so that in the absence of a scheme of this sort I should expect the bank reserves of the world to be on the increase so that part of these requirements could be provided merely by avoiding an increase in the gold reserves in the banks. It is suggested in the memorandum that would be spread over ten years. If it is spread fairly evenly over the ten years I should not be surprised if the whole amount could be provided in that way. If the earlier years took more than their quota from the £103,000,000 it might be necessary to have some reduction in the reserves but it would be nothing worth mentioning in relation to the aggregate of those reserves.

12932 Is the general question of the future of the world's gold supply a matter on which you feel able to assist us?—Do you mean the future production of the mines?

12933 The relation between the world supply and demand for gold in the foreseeable future—I take a heterodox view of this. I think it is a matter devoid of importance, because I think the world's demand for gold is just whatever the world chooses. The world's demand for gold is not a fixed demand.

\* Not printed.

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Mr JOHN MAYNARD KEYNES, CB

[Continue]

Supposing the United States Federal Reserve Bank decided to work to a normal percentage of 80 per cent, you have one demand, and supposing it works to a normal percentage of 60 per cent, you have another demand, and similarly in the case of the Bank of England or the Reichsbank, or the Bank of France. I cannot conceive but that these banks will in fact over periods of time, adjust their proportions to whatever the supply is. So that I do not regard demand as anything which exists independently of the supply but as something which is so artificial that it will adjust itself or can adjust itself if skill is exercised whatever the supply turns out to be.

12934 Have you any opinion about the other side of the book,—the question of supply?—I do not think my opinion is worth much on that.

12935 That is not a matter which you have gone into?—I know no more than is common knowledge.

12936 Turning back for one moment to the demand and the question of the United States in your opinion is it a practicable policy which can be foreseen in the foreseeable future that the central banks of Europe should be able to make substantial reductions in their proportion of reserves, particularly taking into account the effects of that upon the general confidence in the present state of the world?—I think it is entirely a matter of taste. In our own case the present fixed amount of the fiduciary issue of the currency notes and the Bank of England together has the effect of locking up and rendering completely useless by far the greater part of our gold. It is just a matter of taste how much of our gold we choose to make useless. If we choose to make useless £25,000,000 or £50,000,000 less in the course of the next few years, we shall find nearly all the gold required by India in excess of the current production of the mines without the loss having any consequences whatever. There is no rhyme or reason behind the present arrangement. It is a matter of taste and convention.

12937 Shall we say it is a matter of convention, but confidence is sometimes based upon convention and not upon reason?—Yes, but this would not require any such constant convention. The public take what they are told. If the fiduciary issue is fixed at one figure or another public opinion a week later will be just as content with the one as with the other.

12938 Then the second possible disadvantage to which you referred was the effect on the London market. Will you enlarge on that?—I think there the question depends on the particular means by which India raises not so much gold, as the resources to pay for the gold. I imagine it is possible that that might be done to a considerable extent by selling sterling securities out of the Indian gold standard or paper currency reserve, or by raising additional loans in London. In that case if the sales were fairly rapid the strain on London might, in my opinion, be quite severe, but no more severe than from any other foreign loan of an appreciable amount, no part of the proceeds of which are spent in Great Britain. I think however that it would be wrong to oppose the change on this ground, or to let it weigh appreciably. It is a consequence and part of the risk of London's undertaking international banking on a gold basis. If India is not free to realise the sterling securities in the gold standard and paper currency reserves absolutely whenever she likes it is obviously a wrong policy to have such securities as part of the reserve at all. One's banker has no right to complain when one draws a cheque on one's balance even though it inconveniences him, and he knows you are going to spend it stupidly.

12939 As regards the sale of securities there might be an analogy between that and a draft upon one's balance but as regards the raising of supplementary credits, if that were necessary in London, I suppose the analogy for that would be more in the nature of starting an overdraft?—Certainly I think that new credits are a different

question. About that I hold, not only in the case of Indian loans but about all foreign loans, that the principle of the controlling of foreign loans is a right one and one towards which we shall move. We are at the moment living in a state of reaction against the controls of the war period, and at a time when financial rectitude is believed to be whatever happened in 1914, but that will not last very long.

12940 As regards the sale of securities, that may be said to be as the right for India?—Yes.

12941 The raising of credits could never be a matter of right?—No. That matter must be a matter of agreement. I think the Treasury or the Bank of England would be absolutely justified in making difficulties about such a loan, if it appeared likely to embarrass the London money market.

12942 The parties to the agreement would negotiate from the point of view of their own interests?—Yes.

12943 Would it be possible to raise credits of the magnitude required directly in London without account for the concurrence of New York?—So far as I can see it would be possible for India to raise the whole amount required in the earlier part of the period at any rate by the sale of sterling securities out of the existing reserves.

12944 That is £50,000,000 in the first year, is not it?—Is it as much as that? I am speaking subject to correction, because I have not got in my head the total of the reserve.

12945 £15,000,000 at the outset and £35,000,000 in the first year or two?—Then I think perhaps that is not quite correct. Perhaps you could tell me for my guidance what the aggregate of the sterling securities of the two reserves is? It is £10,000,000 in the gold standard reserve is not it?

12946 It is 80 crores?—Then it would go a very long way.

12947 The scheme which is submitted for your consideration was £15,000,000 required at the time of isolation—that is at the outset—and a further £35,000,000 within the year?—That is in crores or in millions?

12948 That is £50,000,000 sterling really in the course of 12 months. Does not that suggest that it would be necessary to supplement the sale of securities with credits?—You have got securities for 80 crores and certain sales of silver. It looks to me rather a close thing. I agree that it would be imprudent in all probability to take this step unless you did see your way to borrow something.

12949 To back it up?—The amount of the loan need not be very great.

12950 To generalise that question somewhat, do you think it would be possible to carry this policy through without the substantial concurrence of the New York money market?—I think it would be much better to have the concurrence of the New York money market, but it appears to me almost unthinkable that you would secure it because of the reasons which I come to later, of the effect on silver.

12951 Perhaps that will come out more definitely in connection with your third heading?—Yes but I concur in the drift of what you are suggesting, namely, that some loan would probably be required, and that London would be justified in making difficulties if simultaneously there were large sales of sterling securities held by India. Therefore, the position of the United States is significant.

12952 Just before we pass away from gold, I should like to ask you a further question. How in your opinion would any unfavourable consequences react actually upon the interests of the Indian community? Supposing that your anticipations that this drain of gold would be carried out without disturbance were unfortunately not to be realised, and supposing there were to be a disturbance, what then?—In London?

12953 Yes, a rise in bank rate?—I can hardly imagine that the disturbance would be serious enough to have much reflex on India. I think

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[Continued]

that it would not be to the advantage of India that we should have dear money here but it should not require any very desperate measures on our part. I should have thought it would merely mean that a certain percentage of our normal foreign investment should take this form for a period. It would not mean that we should need to do anything more drastic than to make foreign investments in this form instead of some other form.

12,954 I will put the question rather more clearly. Would the disturbance to the world's gold markets and particularly in London be a disturbance which India could afford to neglect as having no effect upon Indian interests?—If the disturbance was great it would have an effect on Indian interests but I should not anticipate a disturbance sufficiently great for it to be necessary for India to consider that from her own point of view very seriously.

12,955 Then with regard to silver, which you mentioned just now, what in effect would be the disadvantages on the international position of silver?—In my opinion the possible effect of the change on silver is much more important and dangerous than its effect on gold. Assuming that the scheme is successful in getting gold into circulation, and that gold replaced silver rupees in circulation in the paper currency reserves, the effect on the value of silver might be disastrous. I suspect that the supply of silver from mines is somewhat inelastic—but you will probably be receiving expert evidence on that from other sources—partly because a large proportion I have heard the proportion of 50 per cent mentioned—of silver is now produced as a by-product of lead and copper. The demand for silver on a large scale is mainly from India and China. If India steps out from under, China will have to choose between doing the like, or suffering a collapse of her silver exchange. I should think it is not impossible that China, faced with the prospect of being alone in the world in the use of silver on a large scale for currency purposes would be forced to move towards gold. In that case what would happen to the silver? If for several years India was meeting her own normal demand for silver by melting rupees, I should not be surprised to see silver fall to half its present rate in the terms of gold. All the silver interests in the world would be up in arms, and, not the least important, India would by her own act have depreciated by perhaps 50 per cent the predominant store of value of her own people. This forecast may be over pessimistic, but the figure of 24d suggested in the Commission's questionnaire strikes me as very optimistic. In any case the proposal now under consideration is obviously calculated to make the price of silver fall seriously. As soon as that is felt will the Indian public thank the politicians who have been clamouring for it? In short will the present public opinion, such as it is in favour of the change, be an enduring one? In my opinion India still has a great interest in the stability of the value of silver for the gold market as I have already explained, £103,000,000 is no great matter but for the silver market the silver in the equivalent value of rupees is overwhelming.

12,956 You say that India still has a considerable interest in the stability of silver. You are referring to the interest in the large amount of silver held as a store of value?—Yes.

12,957 Is there any other substantial interest which is present in your mind?—No.

12,958 You referred to the connection between the price of silver and the lead and copper markets. I wonder if you would amplify that at all, to make it clearer to us how the two will react on one another?—I understand that a considerable amount of silver is now obtained in the course of refining lead and copper. Though this is not the case in all the mines from which silver comes, it is the case in a great number that lead and copper are their main products though they make their profits some-

times out of the relatively small amount of silver which they obtain incidentally. If silver was to fall in price heavily, it would be a matter of embarrassment to those mines, and would diminish their profits, and might put some of them out of action. But as the value of the silver they produce is not very great as compared with the value of the lead or copper they produce, it would probably have to be a very severe fall in the price of silver before any great proportion of those mines would be put out of action. It might be that the fall in the price of silver would be compensated for by the rise in the price of lead and copper. I am not an expert on this matter, but my impression is that a fall of 20 per cent in the price of silver might diminish the new supply of silver surprisingly little, so that in order to bring about equilibrium between demand and supply when the Indian demand was removed, a very heavy fall indeed in the price of silver would have to take place.

12,959 It would be against the market both ways?—It would be against the market both ways, and there would be a further aggravating circumstance, you must remember. If a policy of this kind were to be announced, the world's confidence in the future price of silver would be undermined, so that it would become a less eligible article for a store of value than previously. You might, therefore, have a great tendency to sell on the part of people who would otherwise be hoarding silver, with the result that you would not only have the Indian currency demand removed, but you might have a considerable part of the demand for silver as of store value throughout the world removed. It might well happen, when it was seen that the price of silver was doomed to fall that there would be a strong tendency to change over from silver to gold in all parts of the world where silver is still held in large quantities as a store of value, so that a certain fall in the price of silver might precipitate a much greater fall. If the best opinion held that silver would fall from 30d to 24d. I should expect that to precipitate such a flood of silver on to the world's markets and to offer such a strong incentive to bear speculation that at any rate in the first instance, silver would fall to a great deal less than 24d. This seems to me much the biggest point from India's point of view. To introduce this great instability into the silver market, might have consequences of a really disastrous kind when you consider what part silver plays in the life of India. It is a step which ought not to be taken lightly, but only for very grave cause.

12,960 You referred to the reaction on Chinese trade. Could you explain to us how the full consequences would be realised in Indo-Chinese trade of a fall in the value of silver?—Of course it would make it extremely difficult for China to import until the new equilibrium had been reached. The amount of her own money which she would have to offer for goods in the international market would be very greatly increased and if China were simply to remain on her present basis during the whole period of the change there would be severe obstacles in the way of any manufacturer or trader who was accustomed to ship goods to China for sale there. On the other hand there would be for the time being an artificial stimulus to export from China and any markets which were in competition with the Chinese exports would be also interfered with. I have not clearly in mind exactly how far Indian interests are in either of those positions. I know they are to a certain extent but I am not content with the precise figures which no doubt you have from other sources.

12,961 You suggest that they might be forced to move towards gold? It has been put to us in evidence that China is really incapable of moving in any direction under present conditions?—That sounds to me very likely but here one is looking forward over a period of ten years. In former days before the war when China was in a more settled



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[Continued]

condition, there was a great deal of talk of moving towards gold and they had Commissions of Enquiry similar to this one. Though I should imagine it is true at the moment that China would be incapable of any change, you have to remember that silver does not circulate in China by edict, but by custom. The ordinary private life of China goes on amazingly unaffected by political events. It is impossible for me to predict in what way a move of this sort, once it had got going might influence the opinion of the ordinary merchant in China. It would certainly influence it to this extent, that he would be less willing to keep stocks of silver on hand. Like everybody else, he would dislike holding a depreciating store of value, so that you might have a tendency for rich men in China to move over towards keeping their reserve in some other form than silver even if the Government was quite incapable legislatively of taking such a move.

12,962 That would result in what I may call a demand for commercial gold in China?—It might be gold. They might be more anxious to keep their money in the banks on a gold deposit basis. I do not know what form it would take.

12,963 If it took the form of gold undoubtedly the circumstances would have to be taken into consideration as to how far it would affect the situation as regards the world gold market?—I should think it would. I think one can be sure that the Chinese business men, who are very shrewd and by no means removed from general knowledge on these matters, would not be anxious to hold a depreciating store of value. So that the ultimate reaction of the relative values of gold and silver of a move of this sort on the part of India, if the world took it seriously, could hardly be exaggerated. As I say, I lay much more stress on this side of the matter than on the purely gold side.

12,964 In contemplating that for several years India would be meeting her own normal demand for silver in the way of the rupee, were you considering the suggested possibility of an import duty on silver?—I was not clear what form it would take, but was assuming that in some way or the other the Indian Government, being a seller of silver, would reserve the local markets for its own demand. It might be by selling silver a little cheaper than it could be imported or it might put an import duty on silver—I think that the latter course would have a great deal in its favour. But I do not base my argument necessarily upon such a course.

12,965 Would the import duty serve to protect the value of the Indian holdings of silver against the otherwise possibly inevitable decline to which you referred?—Quite possibly, if it was a very heavy duty it would no doubt protect them to a considerable extent. But there has always been a considerable export of silver from India over the land frontiers, and if people who were accustomed to do that trade were finding that the value of silver in the outside world was very much below that of the Indian silver it would probably affect confidence in the value of silver in India itself. In the case of an article like silver which is largely useless and is kept as a store of value and not for use, the influence of opinion on its value is of an order of importance quite different from what it is in the case of something which is consumed year by year.

12,966 It has been suggested to us in the evidence that the desire for silver is so strong, and the habit of using silver as a store and for ornament is so inveterate that the cheaper silver is the more it will be bought and it does not matter how far it falls in that case. Does that seem to you to be a circumstance which should be taken into consideration?—I think that is one of the hoary old maxims about currency affairs which are all false. It is always said that people are very conservative in matters of money, and will never adapt themselves to a new situation. All experience in my

opinion, shows to the contrary. It is most astonishing to see the way in which the public will rapidly adapt themselves to a new situation in currency matters. One example which always struck me, because it was always quoted in advance to the contrary, was that of Egypt. Egypt was always represented as the one country which would never handle anything but hard metal, in fact, there was no country in which paper currency was introduced more easily during the war period.

12,967 Although the public may be uneducated in India, you have a large professional class of extremely intelligent dealers and brokers—No one is uneducated in that sort of matter.

12,968 Not even the Indian ryot?—I should doubt it.

12,969 You say all the silver interests of the world would be up in arms, but I gather one must add to that, in view of your previous analysis, in common interest of the people as well?—I include those as silver interests.

12,970 Would that have special relation to the reception of any proposals in the United States?—Yes.

12,971 You have already mentioned in the course of a previous reply that that is a matter to be taken into serious consideration?—Yes.

12,972 Would you explain that and tell us what you think about that matter, as to what the view of the United States would be on the subject?—I think great play would be made in the United States with the history of the Pittman silver. It would be pointed out that when India was in difficulties in this matter, the producers in America were prevented from obtaining profits they might have obtained, and the American Government behaved with extreme handsomeness towards India. In view of that, a move tending towards the depreciation of silver would be regarded by American opinion as something which India was certainly entitled to do, but not something for which it was entitled to invite American assistance. In the present state of opinion in America I am sure there would be a difficulty in raising a loan—which would not anyhow, be particularly attractive to America from the Americans' selfish standpoint—for the express purpose of making difficulties for two of America's leading products.

12,973 To put it baldly, though the gold interests in the United States might see no objection, the silver, copper, and lead interests would have a very strong objection?—Yes, moreover for the gold interests the project would be a matter of indifference, because unless it is going to increase materially the value of gold it does not do them any good and, as I have explained, I see no reason why it should materially increase the value of gold.

12,974 The fourth disadvantage to which you referred to the expense of financial cost to India—What it would cost India depends upon the price she realises for her silver, and the price at which she sells out her sterling securities or is able to borrow. Taking the simple question of silver, if I am right in supposing that the release of the silver in 103,000,000 pounds' worth of rupees might halve the price of silver, I calculate very roughly that the gold required would cost about three times the value of the silver released; that is to say, the change over would cost India somewhere about £67,000,000 in terms of real resources. If we suppose that India has £67,000,000 of real resources to play with, can one easily conceive a more useless way of using it? Are there not, in the opinion of everybody, a hundred better ways of employing such a sum? The proposition, therefore, impresses me as being a plan to expend some £67,000,000 in destroying the purchasing power of the favourite store of value of the mass of the population. Such a step, with all its risks and unforeseeable consequences, strikes me as very foolish indeed and perhaps dangerous—sufficiently foolish and dan

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[Continued]

gerous to justify the Government of India in turning it down. I think it would show want of courage on the part of the British advisers to accept a proposal contrary to Indian interests for fear of being supposed to refuse out of regard for British interests. We have the curious position that probably hardly any Englishman conscientiously believes that this scheme is in India's interests but a good many, from praise-worthy motives, are prepared to support it out of deference to what they believe to be misguided Indian opinion. The danger is, not that British opinion will be unreasonably allowed to ignore Indian opinion. The danger is that misguided Indian opinion will be allowed to have too great a weight. Of course, it is possible, and it is not improbable that the attempt to put gold into circulation in India would prove a fiasco, so that the gold currency would be introduced normally as a gesture without having important practical consequences, but it would not be right to gamble on that probability just in order to make a gesture.

12,975 As regards that last point, would it be possible to announce such a policy without at any rate some of those reactions on the silver market to which you have already referred?—No, I think that is true. I think that even the announcement would produce some of the consequences. But if in fact the new scheme did not come into operation to any great extent, those consequences would work themselves out before long.

12,976 No important expense would be incurred, as you suggest, if this scheme were to prove a fiasco?—No.

12,977 The only expense incurred I imagine, would be if credits had been established beforehand, which would cost something?—Yes. But it seems to me it would be rather a strange policy to introduce a scheme of this kind in the hope that it would prove a fiasco.

12,978 Casting back for a moment to your figure of £67,000,000 perhaps it is rather a question of mechanism and detail but could you explain to us in what form that expense would come home to rest on the Indian taxpayer?—It would come home to rest in that he would not receive the interest on the sterling securities now held if he sold them, and he would have in some shape or form to pay interest on any loan which was raised.

12,979 What in your view is the general ideal to set before oneself in an attempted solution of any problems of Indian currency?—Well, I should like to say in conclusion that stability of internal prices in India is in my opinion, much more important than stability of foreign exchange, though I agree that great instability of the exchange is in itself a disadvantage. I attach very little importance to a legislative enactment fixing the rupee at 1s 6d. In so far as the stability of foreign exchange is important, while there is not much to choose between a gold standard with gold circulating and a gold exchange standard, some advantage lies with the gold exchange standard. Some sales from time to time of sterling securities by the Government of India in order to adjust the exchange position can be effected with less disturbance to the internal situation than the withdrawal or the pumping in of the equivalent quantity of gold. Above all, the gold exchange standard whilst it is open to most of the objections against a pure gold standard, does at any rate secure most of the advantages, such as they are, as economic as possible, and without a waste of resources.

12,980 May I ask you a question on that, before passing on? Would you describe what are the principal advantages which can be gained by the exchange standard as well as by a gold standard with gold currency?—The linking up of India with the prevailing standards of the outside world, and the prestige attaching to a currency which is interchangeable in terms of gold.

12,981 I am afraid I interrupted you just now?—I was going to say that, if my advice were asked, I should advise the Royal Commission to do nothing whatever. I think that the present situation in India is the best possible obtainable at the moment. That is to say, there is for practical purposes reasonable stability of the exchanges, and India maintains her freedom in the event of future happenings rendering any alternative course more desirable. I think that the present moment is a bad moment for making a change, and that almost any positive course recommended now is likely to be bad. We are at the moment in a state of reaction on currency matters, not at all to be unexpected after the debauches of the war and post-war period. The world has seen the disadvantages and the abuses of unregulated currencies, and it is trying to seek salvation in conservatism, in going back, not in my opinion to the reality, but to the appearance of what existed in pre-war days. It is not impossible that out of this something wise may be evolved, but it is going to be very difficult. We are not at the end of currency discussions, but at the beginning of them. The future currency of the world is going to be determined not by what has happened in the last two or three years, but by what is going to happen in the next 10 years. It is impossible to say what the experience of the countries which are going over to the gold standard is going to be. I think that India will be well advised to hold her hand until some experience has been gained. At present, in the event of serious fluctuation in the value of gold, either upwards or downwards, India is free to avoid the disadvantages of that fluctuation just as she avoided a part of it during the boom and the slump of 1920 and the subsequent years.

12,982 She avoided them by allowing a change in exchange to a greater extent?—Yes. In my opinion India should pursue her present course—that is as long as nothing special happens in the outside world—of maintaining practical stability in the neighbourhood of 1s 6d in any event not allowing any sudden change from 1s 6d, but in the event of gold becoming unstable in the outside world—and no one can say it will not—of maintaining legislative freedom to adjust her exchange to the events in the outside world and so preserving the stability of her internal prices.

12,983 The present state of affairs has been strongly criticised before us on the ground that it allows all matters of currency policy to be entirely in the arbitrary discretion of the currency authorities—at present the Government of India and the Secretary of State in Council?—If you include in the term "Authorities," whatever Central Bank authority is in control of India, I should say that would always be the case. The notion that gold standards work by themselves without interference by the authorities is a myth.

12,984 It is said that by adopting some regularised form either of gold standard or gold exchange standard, the system can be made to work automatically, and less at the discretion of authority than at present?—The exercise of authority would be more concealed, but I think the course of affairs will still be governed by the policy of the Secretary of State in having and selling bills, and by the policy of the banking authority in the matter of its rate of discount and its willingness to increase or diminish the basis of credit.

12,985 Supposing that a currency system is adopted under which the currency authority accepted the obligation to buy and sell some means of international payment at a fixed price would the Secretary of State's operations still continue to affect the matter?—I cannot see that the essential situation would be any different from what it was in the years immediately preceding the war, when the Secretary of State or rather the Government of India was under a legal liability one way to maintain fixed and had a fairly binding practice in the other direction also.

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12986 It is said that there was a practice, but it was by no means binding, and that if the legal liability is made to pull both ways, it will largely reduce the opportunity for the exercise of discretion by the currency authority. That would be so, I imagine, would it not, although it would still leave the element of management which is contained in the operations of the banking authority?—Yes, I think it somewhat reduces it. Supposing it is held that the most important thing about currency is that no element of human purpose or contrivance should enter into it. I think this does somewhat diminish the element of human purpose and contrivance but in my opinion it would be just as foolish to try and get rid of purpose or contrivance as it would be in such a matter as how much land should be ploughed for wheat in a year. It is just as silly to say you will have your currency governed by blind force as to say you will have the amount of your harvest governed by blind force.

12987 In considering that general proposition, do you think that any special consideration should be given to the circumstances of the history of Indian currency and—what is no doubt the fact—that some of the circumstances of the history of Indian currency, have produced a sort of special lack of confidence in currency regulation?—I should have said precisely the other way. India has had a considerable experience of regulation, and while criticism has been levelled against the responsible organ of the Indian Government just as against every other organ of the Indian Government, in fact India has done extremely well. The currency history of India for the last 15 years is to me more favourable than that of any other country in the world. India has actually had experience of these things being done without anything very dreadful occurring but quite the contrary.

12988 Would the opinion you have just expressed affect the question of the possibility of entrusting larger powers in the control of Indian currency to a central bank?—I have always been very much in favour of that. I wrote a memorandum on a central bank for India for the Chamberlain Commission, and the views I expressed there I still maintain.

12989 Then I imagine that one, as it were, has co-ordinated these two opinions by saying that you would continue the present system, but introduce a central bank to manage the present system in place of the Government of India?—Of course since I wrote that memorandum a great deal has been done in that direction. And has not gone the whole way, she has embarked on a path that is rapidly leading the whole way but I imagine that the biggest thing not done is the handing over of the paper currency reserve to the bank.

12990 Such a measure as handing over the paper currency reserve to the bank would, I imagine, be quite consistent with the general views you have expressed as to the continuation of the present position as regards control of Indian currency?—Yes. When I said that I wanted the present state of affairs to continue I was not meaning in all these details of internal organisation.

12991 Now as to the gold standard reserve, would the unification of the gold standard reserve and the paper currency reserve under the control of a central bank be consistent with your general opinion?—If you have a coin of any sort circulating in the country, you have to maintain a reserve for meeting as payments in the demand for the currency inside the country itself. The rupee portions of the paper currency reserve is at present held for that purpose. If gold were to circulate in India you would have to hold a gold reserve also with that object in view. If however your actual circulation is composed of notes or tokens you need your reserves entirely for external purposes for meeting the fluctuations in your balance of trade which could not be redressed otherwise except by rather drastic measures. The

policy governing your reserve ought to be different according as you are holding your reserve to meet the internal drain or the external drain. To my opinion the virtue of the Indian system as it was developed by Sir Lionel Abraham was that those two purposes were kept more distinct than in any other country. They were not kept entirely distinct, because the sterling resources in the paper currency reserve were also part of India's precaution against an external drain. I think that more recently the distinction between the purposes of the two reserves has been further blurred, and if everyone's mind was perfectly clear there might be advantages in consolidating the two reserves into one. But so long as people are inclined to confuse the reserve which you keep for the internal with that which you keep for the external drain, I think there are advantages in the Indian system of having different names for the two, or, at any rate, for parts of the two. A great deal of rubbish is talked about reserves in England because historically our reserve was held to an important extent for the internal drain whereas now it is kept almost entirely for the external drain. We have not as India has different names for the two. The result is that a great deal of argument which would be quite sound if we were holding the reserve for the internal drain is still alleged as sound when we no longer keep our reserve for that purpose. In England we suffer because historically our reserve has been held to an important extent as a precaution against internal drain. India's double reserve helps her in that way.

12992 If the maintenance of a double reserve has these consequences that it makes either or both less efficient for fulfilling the purposes for which it is intended then I suppose it would be rather a heavy sacrifice to clarity of ideas to maintain the separation?—Yes if that was so.

12993 In your opinion might that be so or not?—I do not think it has been so.

12994 The organising of the reserve in a single or a double form?—I do not think it has had any bad consequences so far.

12995 Does not it necessitate keeping a larger reserve in both, for instance?—I do not see why it should.

12996 Anyhow, the minimum which is necessary?—I have the impression as I have said, that the management of these two reserves has been more blurred in post war days than it was in the pre-war days. At the time when I was more closely connected with Indian currency affairs than I am now I think the distinctive purposes of the reserves were quite clearly kept in mind, and the reserves were held at appropriate figures having regard to those considerations.

12997 You see no objection to the unification as long as the currency authority is sufficiently instructed, as it were in the elements of the science which he has to work as to realise the purposes that this reserve is to serve?—Granted that assumption, I see no great disadvantage, but on the other hand I do not see any very great advantage. There is a very strong tradition for allowing a freer hand for that part of your reserve which is not called the currency reserve. The essence of all reserves is that you should have a free hand with them. I fear that if you were to transfer the resources of the gold standard reserve into the paper currency reserve you probably would not have such a free hand to use them in an emergency as you have now. The gold standard reserve is absolutely free. If you put it into the paper currency reserve you quite likely tie it up in the same way as the latter.

12998 That would rather depend would not it upon the legal formula as regards the relation between reserve and circulation? The disadvantage would be that you had not machinery of sufficient elasticity to permit you to use the reserve?—But I am afraid no one but myself has ever proposed

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a formula which would be sufficiently elastic. In my opinion, there should be no legal proportion whatever, so that the whole of the currency in your reserves may be available. You see get rid of the legal proportion as soon as the internal drain is not a danger for the only remaining purpose of the legal proportion is to render some part of your reserve useless.

1299 What is your opinion in this connection of the method which is typically that of the Reichsbank, I think of permitting reduction of reserves subject to tax?—I think it is better than nothing but I always regard that as a rather humbugging contrivance, because the surplus profits of State banks nearly always go to the Government and it does not matter two straws to the authorities of the Reichsbank whether they do pay this fine or not. It generally comes out of the Government which is entitled to a share of the surplus profits. It is a contrivance for moving a little in one direction while keeping up the appearance of the old formula. The proportionate reserve or fiduciary reserve, and all these devices were invented when you were keeping your reserve to an important extent against the internal drain so that when your gold was moving out your need for currency in other forms would be automatically contracted to a certain extent, and the legal proportion enabled to prevent the bank from counteracting that by reissues. When you are not holding your reserve for the internal drain but for the external drain the situation is entirely different and this new situation has not been very profoundly examined from that point of view. I fear therefore in the present state of opinion that if you imprison in the paper currency reserve the resources that India is holding for external purposes they will be likely to come up against some of these rubrics.

1300 Is not that difficult adequately if not somewhat cumbersome met by provisions for suspending the legal basis of the reserve in times of special emergency?—Provided it is understood that you always break your rules whenever you want to I agree that there is less objection to them.

1301 That is the substance of the matter?—On the other hand there is no great advantage.

1302 (Sir Purshottamdas Thakurdas) Can you tell me what you think is the ideal system of currency for India in the circumstances in which you know India is at present?—I think a system like the present in which stability of the exchange is aimed at in normal circumstances but in which India is free to depart from the present level of exchange if it is in the interests of the internal stability of price for her to do so. I would not have her allow the question of the rate of exchange to overbear every other object, but I think it is important that she should maintain the liberty to have a different exchange from the present one if the maintenance of the present exchange would cause internal prices either to rise or fall to a marked extent.

1303 Then I understand that with regard to the return that the cultivator should get for his crop in rupees which you would insure for a period of years—say five years—you would regulate sterling exchange in such a manner that the cultivator would continue to get the same return in rupees and nothing substantially more or less?—Yes, I should do that, except that I should take the standard value of money on a rather broader basis than crops. Crops would be a great part but I would have it rather broader. Also I would not do anything to counteract minor changes, and it would be impossible for me to do anything to counteract the changes due to the harvest. That you have implied in suggesting a five years' period.

1304 I put a five years' period because you named a five years period before the Babington Smith Committee. That is why I named it?—I had forgotten I had named that period.

1305 For that purpose in order to think it out and to avoid any injustice to any of the major interests concerned it would be necessary to have a complete set of figures representing the minimum cost of living and the economic cost of growing certain major crops which would leave a fair margin to the cultivator—would it not be necessary to do that?—If it was to be done in a very precise way such as has been proposed for certain other countries I agree you would have to have a broader basis of statistics but there are all kinds of degrees possible in this. I think India is extremely well placed and better placed than any other country for aiming at the *summa* sort of objects in a much less precise way and with a much broader brush that is to say, not aiming at counteracting small movements or following small movements at all. To keep the stability of the exchange as a normal objective, India is able to do without any disturbance of her existing situation, whilst permitting a fluctuation of the exchange in the event of the value of gold suffering a major change.

1306 You would have to reckon with fluctuations in world prices which would be of course outside the control of the Indian currency system. Take only one article in which India is substantially interested, namely cotton. Cotton has this year gone down in America. I understand (you may take it from me) that cotton has dropped in India to the extent of 40 rupees a bale?—Yes.

1307 Would it not be necessary to ascertain what should be the minimum price to be paid to the cultivator in order that you may not injure his legitimate interests in a substantial manner?—I should not be influenced by the prices of one crop, even if it was as important as cotton. If the same thing was happening all round, then I should be prepared to take action, but I think it is very important that you should not take action in the interests of a particular group of cultivators.

1308 Take cotton or gins, or seeds or rice. There are four of the important crops. Take any one of them or altogether. In order that the growers of these should not suffer and they form the major part of those concerned whose interests should be watched do not you think that we ought to have some basis before we try to regulate exchange by internal price levels?—I think if that policy were to be adopted it would want going into in a good deal of detail. I quite agree to that. You would have to think out quite clearly what were the main indicators of price fluctuation which for India were important. I was only meaning to say at this stage that I do not think that by the adoption of this policy you need settle anything very precisely. I should not in the case of India at the present stage of things aim at avoiding anything except major price changes which were quite obvious to everybody—there would be no doubt that the value of money hid goes up or down as the case might be.

1309 What was in your mind when you said "major price changes" which would be obvious to everybody?—I think if the index prices that are now compiled—no doubt they are rather rough index prices—had moved 10 per cent, the Government of India might to consider whether the exchange might not be allowed to fluctuate a halfpenny or a penny, but even so, I would do it gradually.

1310 Would you take the present index number as a fair basis?—No, if I was doing anything precise I would modify my index number but I think that the late-4 Indian index numbers are not bad.

1311 You would be prepared to recommend that they should be relied upon for a start. Is that what I understand?—I think they are a fairly satisfactory guide to major movements.

1312 In America have they got separate index numbers for major crops which are exported?—Yes, in America they have index numbers which are very much more elaborate than in any other country, and which I think are much superior. There are

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two reasons for that. In the first place, the Bureau of Labour index number is elaborately weighted according to the importance of the different articles. America has a census of production and consumption which is sufficiently precise to enable pretty accurate weights to be given. In most countries it is difficult to give accurate weights because one does not know enough. The second reason is that the manufacturers in America are much more willing to make returns to the Government, so that America has pretty satisfactory numbers for certain manufactured and semi-manufactured goods, whereas, in most countries the index numbers are faulty because it is practically impossible to take enough account of the prices of manufactured and semi-manufactured goods.

13013 Would you agree that India is far, far behind America in this matter? Index numbers in India compared to those of the nature which you have just mentioned as existing in America, are of a comparatively crude nature?—Yes, but on the other hand, India being a simpler country in its organisation you can go much further, whilst having nothing but the prices of the main commodities, than you can in America.

13014 Did I understand you to say India being a simpler country in its organisation?—Yes, the number of articles which really matter are much fewer in number.

13015 The major crops being fewer is what you have in mind?—The consumption of manufactured articles in great variety of shapes and forms being a less important part of the consumption. A mere food index in India would go a long way, whereas a mere food index in the United States is very inadequate. I am simply illustrating what I am saying, that you do not need such complication as they need.

13016 You really think, therefore, that the present index numbers and other figures available in India are fair guides and you would utilise them for the purpose of the ideal that you have named?—I think they can, and ought to be, improved, but I am prepared to trust them in a general way as indicators of longer movements.

13017 Would you take the present basis as being a basis showing a fair return to everybody concerned, either in agriculture or in manufacture? Would you take the present basis of index numbers as the basis which should be maintained, or would you put it up or lower it?—If one is going into it in as much detail as that, I ought to have specified to me which index number you are referring to.

13018 Take the index number of cereals, which is round about 130 as compared with 100 pre-war?—I would not take the index number which was only as index number of cereals.

13019 What would you take as the basis?—I would take broader index numbers which are compiled. My chief practical difficulty would be, I think, in knowing what to do when the index numbers for different parts of India moved differently. My information is—I do not know that it can substantiate it to-day—that whilst for any precise scientific regulation where movements of a small number of per cent mattered, the Indian statistics are inadequate, yet if you merely need a general indication to the authorities as to whether prices on the whole are moving seriously up or seriously down, for such purposes they are adequate.

13020 Up to what point would you allow fluctuations before Government interferes by regulation of exchange to control further fluctuations?—My difficulty in answering that question is this. I am not quite sure whether I am being examined, so to speak, on a scientific regulated currency for India, or whether I am being examined on what I proposed in my evidence in chief namely an intermediate system for India in which this sort of general aim was blended with some of the general aims which have prevailed in the past.

13021 You yourself said a scientific system for India is neither feasible, nor is the material for it available. Therefore I should have thought that we were discussing the other one which you thought was both feasible and immediately available to put in practice?—If that is clear, then I can answer.

13022 I took it from your earlier answer that you strike out the scientific basis as not being feasible, but there is a rough and ready one which you think is good enough to allow the Government to go ahead on?—Yes. I was not suggesting in my evidence in chief that you should have what sometimes has been called the tabular system for India—that is to say, in which it should be the duty of the Government to keep a composite index number within a certain range of fluctuation. I was not suggesting that I was suggesting something much more like what it seems to me has happened in recent years, that is to say, so long as there are no important movements in the outside world, exchange stability is regarded, but when there is an important movement in the outside world, the stability of internal prices is allowed to have some influence. For that purpose I think the Indian index numbers as currently compiled are an adequate guide.

13023 I also asked if you would tell me at what point Government should adjust the exchange?—Well, I hesitated in answering that, first, because I wanted to be clear on this point. I have a further ground for hesitation, that if you are dealing with a system where the Government is not bound legislatively to keep to a certain figure, I think it would depend very much upon the causes of the fluctuations—the general circumstances, and in particular, whether the change was one which had originated in India or whether it was one which had originated outside India. If it was one which had originated in India I should be more chary in interfering with it. I should think it more likely that it had sound foundations. But if it was a change which had originated in the outside world, if something that had happened in New York and London was reacting on Indian prices in a way which was quite unnecessary from the internal Indian point of view, then I should be much more ready to meet that by allowing the exchange to fluctuate a penny or so than if it was a case arising in the first set of circumstances. I would not like to say 5 per cent or 10 per cent, because I think that the controlling authority should have regard to the attendant circumstances.

13024 It may lead to this, may it not? Supposing there was a shortage of wheat in the world, and you found that the prices of wheat in the world market were soaring, the Government of India would regulate wheat prices locally by manipulating the exchange?—I should be against that.

13025 You would be against that?—Yes.

13026 You would allow the wheat crop in India to share the boom prices in the world market?—If I thought it more desirable that it should not I should deal with an individual thing like that by an export duty.

13027 You would put on an export duty so that local prices should be regulated by that?—If the movement was of such magnitude that I thought it would be disastrous for certain districts of India, I would put on an export duty such as many countries have done. I would not introduce currency regulation for this purpose. What I should introduce currency regulation for would be something of a general kind in the outside world not due to a particular harvest of a particular crop, but due to a general tendency of prices to go up or down to an important extent. For example, 1920 is a typical sort of case. If prices in the outside world were booming as they were in 1919 and 1920, or slumping as they were in 1921 and 1922 I should have thought that an indication that the Indian exchange ought not to be kept steady. If, in such circumstances of the outside world, the stability of exchange

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was to be put first, that would bring about fluctuations of internal prices which would be contrary to Indian interests.

13,028 Any such regulation would necessitate expert knowledge about various world crops and world markets? It could not be done by the officials that you referred to in your memorandum regarding the State Bank before the Chamberlain Commission?—I think the kind of thing that I am contemplating would not require more knowledge than you would expect them to have. One has to remember that all this sort of matter is much more discussed and written about than it used to be. In fact the danger will be that the officials of the State Bank will spend too much time reading the enormous mass of weekly and monthly literature on these matters than that they will read too little.

13,029 Whom would you entrust with this work of watching and regulating, so as to know when to act?—Well, I think that the ideal arrangement is a Central Bank, which is in close touch with the Finance Department of the Government.

13,030 You think the commercial community would be able to anticipate the regulation with intelligence, or would it come as a surprise to them?—You can answer that question better than I can.

13,031 How do you mean?—I think you have more experience of the people in question.

13,032 Would that be a system capable of being followed by the ordinary public or would it not be known to them only when notified publicly as the decisions of persons in charge?—I think it would appear in this sort of way: that there was a severe boom or slump in the outside world and that as a consequence of this the authorities in charge of the exchange were allowing the level of the rupee to act as a brake against the reaction of those outside forces on India. I think that those major movements such as I am now considering are things which are extremely well appreciated by a wide opinion now and then. I think the situation is different from what it would have been even ten years ago.

13,033 So far as the currency in India is concerned, you recommend no changes, you would keep on silver rupees and paper currency notes as at present?—Yes.

13,034 You think that would be the ideal system for India, or would you recommend any change, are you aiming at any other ideal?—No, I do not think so. I think that the further popularisation of the note is desirable, but that seems to be going on very well. I should have nothing in particular to suggest about that. The progress since the days when we first used to study these matters has been almost beyond knowledge.

13,035 The progress seems to be satisfactory as far as it goes?—Yes.

13,036 You said you did not believe that gold currency would lead to a greater popularity of paper currency?—I said I did not see why it should.

13,037 That would perhaps depend upon the psychology of the people?—Yes.

13,038 And also to a certain extent, upon how the people would take to notes after gold currency is available as far as inspiring greater confidence is concerned, would not it?—You are suggesting that if the note was convertible in terms of gold that would increase confidence in the note?

13,039 That is it. If people feel that they have only to go round to the Treasury or bank whenever they want any gold coin it has been repeatedly said to us that it would considerably increase the confidence of the people in the paper currency?—That is conceivable. I am not as much up-to-date in these matters as I used to be. In former times when circles existed it used to be held that doubt about the convertibility of the note into rupees as it was then did stand in the way of its popularity. My impression was that by now any doubts about convertibility had really been dispipated, and that was no longer a matter greatly affecting the circu-

lation of the notes in India, but it is not a matter on which I can speak with any authority.

13,040 Would you be disposed to challenge Indian opinion if it was fairly unanimous on this point?—I should on the ground that I know they are in favour of the change for other reasons. I should therefore consider them biased on the matter.

13,041 Will you tell me what those other reasons are which you have in your mind?—I should like to try to elucidate them, but it is difficult. I think Indian opinion has a feeling that a gold currency is so to speak the sanest sort of currency it is the most chic thing and that India is by some malicious contrivances, being deprived of this outfit.

13,042 I wonder if you have seen that emanating anywhere from responsible quarters in India or is it your impression from a general reading of the newspapers?—I have read a great many pamphlets and memoranda and books on this matter, and that is the impression which that reading makes on me.

13,043 With reference to silver India will not need for some years to come silver for the coinage of rupees, and that would have a depressing effect on the silver markets of the world. Is not that so?—Yes.

13,044 I do not suppose that anybody will contend that India should continue to buy silver in order to help the American market?—I do not contend that.

13,045 Suppose the people in India continue to take paper currency freely a third the next five or seven years. The Government at present have a large number of rupees in the Treasury. There are 90 crores there. Supposing another 60 crores come in during the next five years. What would you recommend Government to do? Would it be necessary for them to part with some of this silver which would be lying idle in the Treasury?—Yes. I quite agree with the suggestion contained in the question. I think, quite apart from any proposals which this Commission may make, the position of silver is precarious. Any important change of habit on the part of India would upset silver. It is just because it has so few natural supports at the moment that I gave the evidence I did earlier this morning.

13,046 I only wanted to ask you what you would then recommend the Government of India to do? Would you then say that they must keep the silver and not dispose of it as perhaps they would do in the ordinary course when they were convinced that so much silver was not necessary?—It is difficult to express a definite opinion on these hypothetical circumstances. I have expressed the opinion that India has a great interest in the stability of silver. I adhere to that but I can quite conceive circumstances arising in which silver would really be past saving, and if that were so I should deprecate the Government of India wasting resources in trying to achieve a probably unattainable stability for the metal-silver.

13,047 What would happen at that time to the silver that they had? Would not they have to sell it?—I should have thought that it is not likely there would be any great occasion for selling silver unless there was a change of habit as regards the hoarding of it in India. Leaving that out of account I do not see why anything should happen which should cause the Government of India to melt a great deal. You are suggesting that the progress of the use of Notes might be so great that less rupees would be required in circulation. Unless that happened very rapidly, the natural increase and the natural wastage and so forth would, I should have thought, absorb the rupees that were being released by the increased use of Notes. What you are suggesting is that conceivably, but not probably the Government of India would be in the position of wanting to sell silver on an important scale.

13,048 You say it is conceivable. Supposing it did, in fact, happen within the next seven years.

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Do not you think the Government would be quite justified in selling silver then?—Certainly

13049 Would you, then, give any weight to the interests of America or of any other country?—I should give no weight to the interests of America in such circumstances—not the slightest, but I should still think, if I had any influence with the Government of India, that they ought to pay some regard to the stability of the metal from their own point of view. I do not suggest that, in any circumstances, India should pay the slightest attention to American opinion, unless they are wanting to borrow in America. There is no other reason.

13050 There has been a suggestion made before this Commission that the question of transferring the Note issue to the Imperial Bank or to a Central Bank should be considered. Do you still hold the views which you put forward before the Chamberlain Commission regarding the formation of a State Bank?—Yes, I still hold those views.

13051 I see you said there, on page 63 of the Report of the Chamberlain Commission: "First, as regards the relation of the Bank to the Government. The creation of such a Bank as is here proposed certainly increases in a sense the responsibilities of Government." Do you think such a Central Bank would also increase the responsibilities of Government?—In this passage here I am distinguishing between two senses of responsibility, and I am saying that in a sense it increases the responsibility of Government but that in another sense it does not. I think I still agree with it so far as I still remember what it here.

13052 That is brought out further on page 61, where in the last paragraph but one you say: "The choice lies between a good deal of responsibility without thorough satisfactory machinery for the discharge of it, and a little more responsibility with such a machinery."—I think that fairly represents my view.

13053 And you confirm that to-day?—Yes.

13054 You would be opposed then, to any suggestion that the Central Bank should work absolutely without any sort of direction from the Finance Department?—I think it is very difficult. It is not desirable. The India Finance Department is such a very big factor in the situation in their operations that it would be an inefficient way of conducting the Bank not to be in very close touch with them, and if you are in very close touch with them it is impossible that they should not be taking a certain responsibility. That had better be faced at the outset.

13055 It has been pointed out that Central Banks in important European countries have very little, if any, Government control. Do you think there are sound reasons for having a different system in India?—To which of the countries are you referring?

13056 In many important countries we were told, the Central Bank is more or less independent of the Government?—It all depends whether you mean formally or informally.

13057 Formally?—You could not have a more extreme case than the Bank of England, which formally is a private company, but that does not in any way represent the facts.

13058 And there is a sort of persuasion and perhaps a spirit of trying to see each other's point of view. The Bank of England at a certain juncture during the war did absolutely refuse to issue paper without gold backing and the Government had to issue their own paper—the Bradbury Notes?—I do not think that is quite a full history of the matter. I should have said, if we are to take the war period as bearing on it, that it is the Chancellor of the Exchequer who has the last word in the end.

13059 The Government may have the last word by issuing their own paper?—Within very wide regions the Government of the day has the last word in the end.

13060 What happens if the Bank directors are opposed to doing it?—The Bank directors have the power of resigning and making a great public scandal about it in the last resort but in practice, short of a great public scandal, I should say that it is the Government of the day which has the last word.

13061 Do you suggest that what you recommend for an Indian Central Bank has its counterpart in any country in Europe?—I think we are in a very transitional state in England in which the formal situation is more remote than it used to be from the actual situation. That is also the case in several other countries. There is a struggle going on as to where the equilibrium of power should lie. In the United States the precise relation of the Federal Reserve Board to the United States Treasury is in process of evolution. It is impossible to make an up-to-date exact statement of what it is at any moment.

13062 You suggest a Board of three—the Governor, the Deputy-Governor, and a representative of the Government, and then you recommend three ex-officio as representing the Presidency Banks, as they were then?—That is all of date now.

13063 Would you make the Imperial Bank, as it is constituted at present, the Central Bank, or would you start another Bank as the State Bank?—I have not clearly before my mind the exact Charter of the Imperial Bank, so that I cannot answer that question now. I should require to prepare myself on the point.

13064 I only wondered whether you would convert a Bank, which is admitted to be a commercial Bank, into a Central Bank? Would you entrust a Bank which borrows money, and lends money, and opens branches all over the country, and in fact which has the largest number of branches in the whole of India, with the power of Note issue?—I think I should be unwise to answer, without preparing myself, questions as to the way in which the Imperial Bank could be developed.

13065 Regarding the ratio to be fixed, I think you say in paragraph 9 of your memorandum that you "attach very little importance to a legislative enactment fixing the ratio at 1s. 6d." I dare say you may be aware that at the moment the ratio in the Indian Statute is 2s. 7.—Yes, I am aware of that.

13066 Which is absolutely inoperative, and prevents gold from being tendered to the Government?—Yes. I think that inoperative provision ought to be removed.

13067 To that extent, at least it is necessary for the Government to make a change, even though your recommendation of doing nothing may be fully complied with?—Yes, I agree.

13068 What is the ratio you would have substituted?—I should substitute no ratio.

13069 No ratio at all?—No.

13070 At what rate would gold be tendered to Government?—It would be possible for the Government to fix, as I think it used to at one time, a buying rate from time to time, which would be in suitable accordance with the actual exchange of the moment. I would leave the Government to fix its buying price by enactment and not have it tied to a price.

13071 By enactment?—By executive order, I mean.

13072 The basis for the action to be the regulation of internal prices?—The question of the prices at which they buy and sell gold is exactly the same as the question of the prices at which they fix the exchange. Therefore, if I am in favour of a certain latitude as to the rate of exchange, I am clearly in favour of the same latitude as regards the price of gold.

13073 (Sir Reginald Munt) You said in reply to the Chairman that you thought that in future the demand for gold for monetary purposes would practically be regulated by the supply?—Yes.

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13074 Do you share the view that in the past prices have been regulated broadly by the supply of gold a little? In pre-war days yes but will modification in the little gold reserves in 1914 would have been much less relevant to prices of the South African gold had not been poured out since 1900. I think the South African gold did not produce its proportionate effect on prices because the Central Bank took advantage of the greater ease with which they could get gold to increase their reserves more in proportion than they would have done if it had been more difficult to do so. But I agree that before the war the supply of gold did exercise a dominating influence on the price level. Before the war however gold was not circulated in many countries so that the requirements of gold in circulation had a strong influence on the level of prices. Now that is a question.

13075 You do not anticipate any large return of gold to circulation?—No I do not. The one country which is in a position to put gold into circulation without any cost namely the United States does not in practice find that gold is used except in limited parts of the country. The greater part of the United States which is quite free to use gold if they want to do so does not.

13076 If prices can be kept steady by the control of Central Banks respectively of the supply of gold is it usually open to them to raise or lower prices if the supply of gold remains steady?—With limits I should not have given the same answer if the amount of gold in question had been ten times as great. All the things are within limits but those limits are sufficiently wide to allow of the absorption of less of 100 millions of gold. If you deal with much larger sums it is another question.

13077 What I am considering is the prospect of the world's prices being practically in the hands of the banks or other authorities which control the volume of currency. According to your view in the future world prices will practically be managed by us?—I think so.

13078 You think they would be managed by some sort of international agreement or international Council?—I should hope so but I think we are very long way off that. You can have a state of affairs where the level of prices is dependent upon the action of banks even although the action of banks is not taken advisedly or in collaboration. I think the dominating influence at present is the Federal Reserve Board in the United States and the great difficulty in the way of an extension of international co-operation is that it must mean the Federal Reserve Board voluntarily resigning some portion of its present power. The present political conditions in America are such that it would be difficult for it to do that. It is already open to the charge of acting contrary to American interests and international influences. Although I think that charge is completely unfounded it is the sort of thing to which you have to pay some attention. I believe we could have a great measure of control by an international body of banks at the moment if the Federal Reserve Board was prepared to surrender some part of its present power. I do not see it doing that easily.

13079 It looks forward as other nations move back to a gold standard presumably the world's reserves of gold will be distributed more widely than they are at present?—I do not know that they need be.

13080 You do not think they will be?—Not necessarily. If you had a perfect gold standard you would not need as gold at all. If you had perfect international co-operation it would be unnecessary for anyone to have any gold reserves and as you tend further and further in that direction the smaller the part which gold reserves play in the matter. I think it is possible that we shall eventually move to something which we call a gold

standard in which actual gold plays scarcely any part. It is naturally a long way from that but it is evolving because I think that the task of paying for services to gold greatly aggravates the difficulty of the technical problem but in so far as international co-operation is developed the tendency to gold will be more and more in the nature of a service and it will be more and more a matter of indifference as to what gold reserve any given country holds. I think there will be anxiety on the part of countries to save money and to have as little gold as possible rather than to have as much as possible.

13081 The regulation of prices will be under some form of international control?—Yes but I think it will probably be rather a loose way such as I have been suggesting in the case of India. Certainly it could be in that form first of all. The tabular standard would come later. In the first instance it would be a control in the sense that it would be a control over the movements. It would not be tied to any prices formula.

13082 That would be the international position. What I understand you to recommend for India is that she should stand outside it?—I think she should wait and see. None of these things which we have been discussing are really in the air at present. The actual future of the gold standard I think is quite uncertain at the moment. If I was in India I should wish to wait being under no compulsion to make a change until I saw what happened. We are in very early days at present. It is not a year since this country came on to a gold standard and I think it is needlessly rash for a country which has liberty to take a move on at all at the moment.

13083 You do not want India to be herself to world prices at present?—I do not see why she should not.

13084 Later on it would be open to her to come into the international pool or not?—Yes a financial international pool was under serious discussion. I think India ought to be represented at the meeting and ought to be one of the parties to it. But I think she should go to that meeting with a free hand.

13085 With regard to your recommendation that we should practically maintain a fixed parity with the gold which you modified that to some extent in your reply to Sir Preshottandas Thakurdas when you said you would have no legal rate of exchange fixed by statute?—Yes. The old practice was to have a legal rate one way but not the other that is to say a legal rate at which gold was accepted but at the legal rate at which it was paid out.

13086 You would not recommend a legal rate both ways?—No I should prefer to have liberty both ways.

13087 Do you contemplate unlimited sales or receipts of gold or gold exchange under the system you recommend? I will just explain that in the past the amount of gold or foreign exchange to be sold in the shape of reserve councils was an arbitrary amount fixed by the Councils. It has been suggested to us that in a new system limited amounts of foreign exchange should be provided?—I think that they should be provided at the rate that was fixed for the moment. Suppose that the rate was 1s 6d I would sell exchange as freely at the appropriate parity with it as I could maintain the liberty to alter it. I think the system will be all after the war is running exchange was thoroughly used. I am an admirer of the Indian Councils and I think it is a system which you tried to work out rather carefully what reserves you required in order to meet the maximum probable fluctuations of India's foreign trade position within a short period and then used those reserves freely. But I should not make great sacrifices in order to preserve an exact parity of exchange for other reasons. I did not think it was worth while.



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13083 I understand you would have no limit in selling foreign exchange until it became a question of altering the rate?—Yes, and I should be strongly in favour of making any alteration not catastrophically but by small degrees. If there were indications that there was going to be a severe drain, I should lower my exchange by 1.

13089 You would never inform the public how far you were going to alter it?—No because I should not know myself. I agree that the objection is that is that you may have a speculation arising but I think you must have sufficiently large reserves to be able to look after it. That is so with any arrangement of this sort.

13090 Would not it introduce an undesirable element of uncertainty in trade and commerce?—It is undesirable but I think it is not so undesirable as the uncertainty of prices. I think it is an evil.

13091 Dealing with the two reserves, the paper currency reserve and the gold standard reserve you have said that the former is intended primarily for internal conversion and the other for external purposes?—I said the silver in the paper currency reserve was intended for internal purposes.

13092 For internal purposes it is only the silver in the reserve that would be required?—In other days the amount of sterling securities in the paper currency reserve was very trifling. It is the increase in the sterling securities in the paper currency reserve which has slightly blurred the distinction which need to be clearer. Formerly the greater part of the sterling resources were in the gold standard reserve. There was some gold, it is true, in the paper currency reserve which you might hold as serving the other purpose but the bulk of the paper currency reserve was silver. Now there is a greater proportion of the paper currency reserve which it might be argued is held for external purposes so the distinction is not so clear as it used to be.

13093 Is it not a fact that the paper currency reserve serves a dual function in holding silver resources for internal purposes and holding also a considerable amount of gold or sterling resources for external purposes?—Yes. I think now that is so—that part of the paper currency reserve must be reckoned as being a reserve against external drain.

13094 The only distinction between the two reserves is that one is maintained for two purposes and the other is maintained for one purpose?—Except that you have this considerable sum of 40 millions sterling in the gold standard reserve which is freely available without any reaction upon any thing and which you can use untrammelled by ratios or rules of any sort. I think that is a great advantage. In the use of the second line of your reserve for external purposes which is in the paper currency reserve you are more hedged about. More over one would hope that it would only be in very exceptional circumstances that that second line would be in question.

13095 Which are you calling the first line?—I am calling the gold standard the first line but I may be talking old fashioned language because I have noticed a tendency to keep it amount of that absolutely fixed in recent times and a greater willingness to fluctuate the sterling resource of the paper currency reserve. I think the old-fashioned method is better.

13096 In practice the paper currency reserve is used as the first line and the gold standard reserve is kept as an ultimate reserve?—That is so lately. But I doubt whether that would be done if it were a matter of an important movement.

13097 You would rather see the gold standard reserve used as the first line?—Yes and I think it would be used first if the large sums were involved over a short period. I do not think you can argue from recent custom what would happen in more severe circumstances.

13099 In the memorandum which you wrote for the Chamberlain Commission you recommended that the paper currency reserve should be made over to a bank but that the gold standard reserve should be retained by Government?—Yes I had forgotten that I recommended that. It depends upon the nature of the responsibility. I think in this Report I was contemplating that the Government would be under legal obligation to maintain exchange at a fixed figure and I think I recommended this as a consequence of that.

13100 It would not quite fit in with your theory that the gold standard reserve should be used as the first line of defence?—Yes I am of opinion that it would because I was contemplating in that Report that the legal liability in relation to the currency would remain with the Government.

13101 The bank would be merely responsible for maintaining the internal convertibility of the Note?—No I do not think that was my recommendation. I am sorry I have not read this through quite recently. If the Commission wish to know just how much I hold to this I should have to read it through.

13102 I merely wanted to know whether you still hold that if a central bank were constituted and entrusted with the Note issue the responsibility for maintaining exchange should remain with the Government and not be imposed on the bank?—There are two points I should like to make about that. When I was writing this I was contemplating that there would be a legal raise of the rupee in terms of sterling and that the responsibility would fall on the Government for preventing that. I was also making in a sense a compromise suggestion because at that time India was much farther from the central bank idea than she is now. There was the complication of the Proclamation Banks and so forth. I was in a position of difficulty as to how far it was possible to recommend that the Government should hand over to a body which was still non-existent the responsibility for keeping the law, so to speak. Now there are two changes. I am not recommending that there should be the same legal liability to maintain an exact rate of exchange and India has progressed much farther in the central bank direction so it is less experimental. Therefore I answer this point with less confidence. What my final answer would be would depend upon the question just how much the Government was concerned in the bank. If an attempt was made to pretend that the central bank was something independent of the Government, I should still be nervous of giving them the whole of the final responsibility for the exchange but if the central bank was whilst administratively an independent entity nevertheless in a sense a full organ of Government then I should be inclined to centralise the whole thing and to put the whole matter in the hands of the bank. But I could not give a final confident answer unless I had before me the precise proposal as to the relations of the new bank with the Government.

13103 If the bank were not entrusted with the responsibility for maintaining exchange there might be some conflict between their discount policy and the exchange policy of the Government might there not?—I think it would be most important that they should be pursuing an agreed policy wherever the final responsibility lay. It would be hopeless to have the bank responsible for the discount policy and pursuing a line which was not in accordance with the line of the Treasury in their responsibility for exchange. I agree with that completely.

13104 Then there will have to be either complete responsibility or complete control? Either the bank must take over both or the Government must control the discount policy of the bank?—I think in a sense that is true but at any rate in English conditions and I should have thought in Indian conditions things are not quite so cut and dried in practice and you can have two bodies which maintain

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their respective spheres of responsibility and of power and yet necessarily always work together. It is the fundamental question of the relation between any central bank and any Treasury. In a sense in any country it is quite unworkable that the two should be in antagonism. Therefore you might say, as a logical consequence of that, that one must be in subordination to the other, but I hope that is not true in practice, but that you can have two bodies neither of which is subordinate to the other but which must always act in co-operation with one another. It is a dilemma which you get in other spheres of government. My view in this country of the future of regulation would be that the Treasury and the Bank of England would be neither subordinate to the other but would always be pursuing the same policy. That may sound impossible but I do not think it is.

13,104 What I am trying to feel my way to is how your argument as to the varying rate of exchange would fit in with the proposals which have been put before us for making over the responsibility of maintaining exchange to a central bank. It would be simple enough to make over that responsibility if we had a legal rate of exchange which the bank would be bound to maintain but I do not see quite how the future arrangement would work out if the rate of exchange was variable.—You may pretend it is the liability of the bank, but if there is any doubt as to the power of the bank to implement it the Government comes in at once. I think it was always contemplated under the pre-war arrangement that India might be subjected to such a severe strain that she would have to borrow. The moment there is a question of borrowing the credit of the Government comes in. I think the notion that the Government can get rid of responsibility on to the bank, and that that avoidance of responsibility can continue not only in good times but in difficult times, is a misapprehension. As soon as any real problem arose the Government would have to be in such relations to the bank again as to make itself responsible, because the bank has no ultimate authority of itself.

13,105 In any case I suppose Government would retain the responsibility for varying the rate of exchange under your scheme?—Yes. I conceive a central bank not as something which is independent of the Government in the sense in which a Bombay cotton mill is independent of the Government, but as an organ of the Government which has a certain independence of the executive that is to say, that it is not a subordinate department of the Treasury, but is an organ of the Government on a level of authority with the Treasury. I think there is apt to be a confusion between the Government as a sovereign body getting rid of responsibility, and some particular department of Government like the Finance Department, which at present has responsibility, having less responsibility. I think the change would mean that the Department of Finance would have less responsibility than it has now, but the Government of India in a broad sense, would have just the same amount of responsibility as it has now. It is impossible to conceive a sound system in which your central bank was really a private thing and was not subordinate to the sovereign instructions of the Government.

13,106 I just want to clear up that last point I put to you. In any case the responsibility for varying or altering the rate of exchange must rest with the Government?—It might rest to outward appearance with the bank as an organ of Government but I should not be able to conceive a situation in which the bank could fluctuate the exchange contrary to the wishes of the supreme authority of the Government.

13,107 That is much the same thing. The Government must retain responsibility?—It seems to me unthinkable that it should not. I cannot imagine India having a central bank which could say that the ex-

change should move a penny, when the Viceroy in Council was of the opinion that it should not.

13,108 (Sir Henry Strachey) I would refer you to paragraph 4 of your memorandum where you say you do not lay great stress upon the withdrawal of 103 millions sterling from the currency reserves of the world. Would your opinion be unchanged if you also consider that there is needed, especially in more primitive countries, an addition to the currency annually? In that connection I may just say that before the war there was an annual addition to the currency in India of something in the neighbourhood of 20 to 25 crores?—If this figure of 103 millions is in fact too small a figure—if the actual figure is much larger—that would affect me, but I think it can be somewhat larger without affecting me. If you mean that this is a miscalculation, that what India would really require would be a very much larger amount, I should have to reconsider my opinion. I was taking this figure as a good estimate.

13,109 I do not suggest it is a miscalculation, but I suggest that in addition to the 103 million sterling which will be needed to stock India with a gold currency there will be needed annually an accretion to that currency?—Within the next 10 years?

13,110 In the past there has been an annual accretion to the currency of India of something in the neighbourhood of 20 crores?—I am not clear whether you are suggesting that India will need for currency purposes more than 103 millions in the first ten years.

13,111 That is so, I do suggest that.—If the figure is very much greater I should have to reconsider what I have been saying. I have been speaking on the basis of the 103 millions being roughly right.

13,112 If, as you suggest in a later part of your memorandum, owing to the severe fall in the price of silver a raucous like China might switch over to the gold standard, that would obviously require a further withdrawal from the gold currency reserve of the world. Would you in that case also be of the view that it would not affect the purchasing power of gold?—I agree that a point comes when you reach a figure so large that it would be difficult to supply it without a change of policy, but I think there is a fairly wide margin. I agree that if you were talking about 500 millions it would be another matter.

13,113 To go further you said in your evidence that a withdrawal of that gold need not affect the supply of credit and gold prices. I suppose you would agree—in fact I think you said it—that the Reserve needed to assure the external value of a currency is the amount of foreign payments which have to be made on balance at any given time?—After making some allowance for what one can borrow at short notice.

13,114 That is to say, the gold reserves in a gold standard country have to be big enough to enable a temporary adverse balance of trade to be righted before the orthodox means of contracting the currency have their play?—Except that I should expect countries to hold foreign balances as part of their reserve—at any rate a good many of them—as they do already. The measure of the gold reserve you must keep is what you require to meet short period fluctuations after taking account of any foreign balances that you hold and a conservative estimate of what you can borrow at short notice.

13,115 You would also agree that the greater the volume of trade of a country the greater the possible temporary adverse balance of payment?—Except there are many other factors. The variability of Indian exports as compared with British exports is greater than in proportion to their absolute amount.

13,116 What would be the psychological effect of reducing the gold balances held?—If the view is held that the gold reserve should be big enough to run it a temporary adverse balance of payments then it would be an easy matter to induce the currency authorities in the gold standard countries to reduce their gold security reserves as you suggest?—I think that the danger of the central banks pursuing what I should

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regard as a misguided policy, and thereby allowing a withdrawal of gold for India to have more effect than it need, is a very real one.

13,117. But human nature being what it is, would they not feel extremely uneasy if they saw their reserves dwindle to a point where they felt that their adverse balance of payment could not be met? Is not that a factor which would have to be taken into account?—I confess that the personalities of the central banks of the world do alarm me.

13,118. It is not only the central banks but the general public. Have not the general public a great deal to do with it? If the general public became alarmed when they saw that the gold reserves were dwindling would they not immediately react to that position?—I feel that unless there is some change of opinion in those matters we are done anyhow. This does not seem to me a larger amount, spread over the period that it is, than amounts which will often be coming along. Something that one cannot predict will constantly put a strain comparable to this on the gold standard, and if the Governors of the Central Banks are so fixed in their minds as to what proportions they want and are so unwilling to use their gold reserves that they cannot accommodate themselves to a demand of this magnitude, I do not see much future for the gold standard.

13,119. I think you have said that if ideal conditions in international trade were to obtain then you could afford to reduce your gold reserves?—Yes. I am assuming that in that case the practice of holding foreign balances would be increased.

13,120. I take it that would mean a long process of education?—Yes. I think it would, and if you concentrate these balances too much in one place it is to your dangers in a sense, because they may be withdrawn from that place, and as regards the place—for example, London—where foreign balances are held on a large scale the requirements of that place for gold would be greater, I agree.

13,121. You would not think it unreasonable if people did attach importance to the holding in these circumstances, of substantial gold balances to secure the external value of their money?—I should think it foolish if they held these with the idea of saving using them.

13,122. Then, in the next paragraph, you draw a picture of a banker living to pay out balances due to his customers. If I may I should like to complete the picture. If you had a big creditor of a bank withdrawing his balance for the purpose of buying let us say, a collection of old masters and if the bank for that reason had to curtail credit to its other customers upon whom the trade of the big depositor depends would not that hit the big depositor?—I think the big customer might be well advised not to do it but I think there are limits to the extent to which his banker can press that point on him. I think he would be entitled to resent it if his banker pressed the point.

13,123. That is to say greatness, even in the matter of Bank balances imposes responsibilities?—I have expressed the opinion already that India would be well advised to press for this. I think it would be wrong of them to do it but it seems to me to strike at the root of international banking if we make any difficulties.

13,124. Now to turn to another point. Supposing India was content to link her price level to gold? What would be the criterion in your view, when you come to consider at what point you are to stabilise permanently your exchange?—I should take something as near as possible to the existing situation.

13,125. That is to say you would examine whether internal prices had sufficiently adjusted themselves to the external value of the money?—Yes.

13,126. Do you see anything in the point which has been put to us by a number of witnesses that to fix the external value of the rupee at 1s 6d would damage certain interests especially those of the cultivator and exporter?—As compared with?

13,127. With a lower ratio?—I think whenever you arbitrarily alter the exchange you benefit some interests and injure others.

13,128. But at this stage?—I have not examined the level of prices in India in detail recently, but so far as my knowledge goes I see no injustice in talking about 1s 6d.

13,129. You are aware that the exchange has ruled at 1s 6d gold ever since this country went back to the gold standard?—I am not aware of the exact period.

13,130. But can one not suppose that during that period internal prices would have adjusted themselves to the 1s 6d?—I think it is reasonable to expect that adjustment to this figure is fairly complete.

13,131. What would be the effect if one were to fix the external value at 1s 4d having regard to these circumstances?—If it is true that things are adjusted to 1s 6d, one would be introducing an arbitrary disturbance which I should very much deprecate.

13,132. There is the question of the hoarding of money in India. I take it you will agree that the hoarding of money is detrimental to India's interests from every point of view?—Yes.

13,133. Both from the point of view of managing the currency and also economically?—Yes.

13,134. Could you suggest a way of educating the people of India to hoard in things other than precious metals?—That is a very old problem. It is evident that India is absorbing a very much greater volume of securities than used to be thought possible. Everything that can be done to encourage that ought to be done. It looks as though in recent years great progress has been made. I have not the Indian experience that would enable me to make suggestions.

13,135. You would say that to offer India a gold currency would not have any effect in that direction?—I cannot see how it could. I should have thought it could tend the other way, if anything.

13,136. You would say, I suppose, that to give them a gold currency in India would not teach them anything?—I think it is a retrograde measure.

13,137. (Sir Rajendra Prasad Mukherjee) I understand that your chief objections to a gold currency scheme are, firstly the disastrous effect on its value and secondly the opposition of silver interests?—No. My two chief objections are the effect on the silver market, and the cost to India.

13,138. Did you not also lay stress on the interests of other countries being affected in anyway?—I lay very little stress on that. The two points I lay stress on are A and B in my memorandum.

13,139. The hoards of silver in India are principally composed of coin, are they not?—I do not know. I always understood that there was a bigger store of silver not in the shape of coin. I am not aware of the relative magnitudes.

13,140. Anyhow, we have been told by the Government that in addition to 80 crores of silver in their reserve there may be estimated a maximum of Rs 100 crores with the public?—Yes, but I am not aware of what the estimate is of the amount of silver hoarded not in the form of coin.

13,141. The proposal in the Memorandum of the Finance Department is, that even with the introduction of gold coin and a gold standard, the silver rupee would remain legal tender?—Yes.

13,142. The silver coin and silver rupees are generally in the hands of the cultivators, who number 124 millions out of the total population of India of 370 millions. These cultivators, as you know, will not be able to exchange their silver for gold coins for two reasons. First of all dividing up the total silver coinage between these 124 millions of cultivators we find that each man on an average comes to about 5 rupees. Taking an average of four persons to a family a sum of 20 rupees is not big enough for them to wish to go and change it into gold. Also it is not convenient for them to do so as they want to use their silver hoards in times of necessity. They

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wants to go through every stage she had better start with cowries.

13164 I only want your opinion on that point, because it is an argument that has been put to us in India?—You mean the idea is that India is to begin by making all the mistakes that it is possible to make, and to adopt in turn all the obsolete currencies.

13165 India has been on a gold exchange standard. England has now reached the gold exchange standard practically. It has been suggested that India, not having gone through the gold currency stage, ought now to go through the gold currency stage in order to familiarise her people with the gold coinage?—Nobody will make the same proposals as regards cotton machinery or motor cars, would they?

13166 I am glad to have your opinion on that point. In connection with the ratio of exchange, I think in olden days you favoured the sovereign as being the suitable coin on the 16/11 basis? Supposing the ratio is altered to 1s. 6d., what is your opinion in that connection now?—I have not thought much about that. At 1s. 6d. the sovereign is an inconvenient unit. I think you would need a gold coin which represented a more convenient number of rupees.

13167 Does that suggest to your mind an Indian gold coin—either a 10 or 20 rupee gold coin?—I think of this as a mere matter of convenience. I have no particular feeling one way or the other.

13168 Have you a feeling in favour of a high valued gold coin?—It depends on how serious you are in your wish to get gold into circulation. If you want to get gold into circulation I should have a relatively small unit say 10 rupees or less. If you hope the people will take as little gold as possible then I would have a larger unit.

13169 Your view in that connection would be that India should therefore have a large valued coin?—I would have as large a unit as possible, because the less gold flows into circulation the better.

13170 In the old days it was really the sovereign that circulated more than the half-sovereign?—I believe so. I believe there were hardly any half-sovereigns in India.

13171 I gather from your examination that you are prepared to give India a gold currency practically in order to placate Indian opinion, and even although Indian opinion may be misguided. How do you arrive at Indian opinion? You said you arrived at it, I think, by reading various publications, but do you recognise the difference between opinion in India and opinion at home with which you are more familiar?—Yes. I do not pretend to assert as a fact that Indian opinion is in favour of it. I mentioned it because it is often said that it is and that seemed to me, if true, the most solid argument I have heard in favour of gold currency. Therefore I devoted myself to answering what seemed to me the most solid argument. But it may be that Indian opinion is not in favour. I am only going by the type of communication which this Commission has probably had in large quantities and which I also receive through the post.

13172 If you were to take a country like England with a high standard of education where probably 80 per cent of the people are urban as against 20 per cent in the country?—Frankly my opinion is that Indian opinion is in favour of it, in the same sense in which British opinion was in favour of the gold standard a year ago. In this matter there is always only a small minority of the public who take any intelligent interest in it. If you take good class academic opinion in India which I think ought to have some deference paid to it in a matter of this sort as representing true Indian opinion I should have said that the weight of good academic opinion in India was in favour of a gold currency. Many professors whom I consider deserve respect in other matters have expressed that view and although I disagree with them on that I do

not think their opinion ought to be swept on one side.

13173 I appreciate that. You think that the academic opinion in India, although of very small volume, is of such value that it ought to be carefully weighed as against the unexpressed opinions of 80 or 90 per cent of the population?—Yes, I think it ought, because it is not only Indian academic opinion but there is also a considerable volume of Indian business opinion to the same effect. I think all the methods one has of gauging Indian opinion would lead to the conclusion that Indian opinion, so far as it is intelligent and articulate supports this.

13174 At home they have not accepted the best academic opinion?—They have accepted the weight of academic opinion.

13175 (Mr. Preston.) It is quite evident that you are aware of another side of Indian opinion regarding the propositions which the Commission have placed before you in the memoranda other than was evident to us. Therefore may I say that it will not come as a surprise to you if I were to state that the phase of Indian opinion which has been placed before you in that memoranda is not the only one which is existing in India?—I am glad to hear it.

13176 Or in other words that there is a very heavy weight of opinion also in India which is not represented by that memoranda?—I am very glad to hear it, but I can only say that not much of it has come my way.

13177 The old exchange standard which was functioning in India from 1903 to 1914 was simple, public, automatic, and brought great advantages to the land of India, did it not?—I think it was the best currency system then existing in the world.

13178 And had it not been for the war it is reasonable to suppose that that system would still have been in force?—I think so.

13179 And there would have been no need for the Babington-Smith Committee or probably for this Commission?—I think that the conclusions of the Chamberlain Commission would have held.

13180 Thus other weight of opinion recognised that that old exchange standard had been beneficial to the land of India had it been properly managed. They have come to the conclusion that during the war it was mismanaged. For our purposes now it is immaterial whether it was or was not, but really speaking it was about two-thirds on the way towards a simple gold standard, was it not, in its application?—Yes quite two-thirds of the way to a gold standard, but to a gold currency not so far.

13181 Let me call it a simple gold standard?—More than two-thirds of the way.

13182 The consensus of that other opinion today, so far as I can read it is that they have no desire whatever to be guilty of or to demand any action from the authorities on this side which, in her claim for gold, would be detrimental either to this country or to India's interests. They have also in view that in her demand, they would not be guilty of any action which would in any way jeopardise the existing securities in the paper currency reserve or the gold standard reserve. What they desire is simply this—that it should be authoritatively constituted, that there should be a free and unrestricted import of gold and output of gold. In pre-war times the sovereign was the universal tender in India. The parity was 15 to 1, or the 1s. 4d. such as we knew it. Therefore the upper gold point was put down as 1s. 4½d. The export point was put at 1s. 3½d. and, whilst we allowed gold to come in Government never accepted the responsibility of giving gold on the other side for rupees. Therefore what they now desire is that that inequality if I may call it so, should be rectified. So that, taking the changes which have happened since then and taking the great changes and the difficulties which are in evidence here on this side, and of which you yourself have spoken

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[Continued]

## THIRTY-NINTH DAY.

Wednesday, 24th March, 1926.

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (Chairman)

SIR RAJENDRANATH MUKHERJEE, K.C.I.F.,

K.C.V.O.

SIR NORCOT HASTINGS TIERNEY WARREN, K.C.I.F.

SIR REGINALD MANN, K.C.I.F., Q.S.I.

SIR HENRY STRAKOSCH, K.H.L.

SIR ALEXANDER ROBERTSON MURRAY, C.M.F.

SIR PLEASANTON DAVIS, C.I.F., M.B.E.,

M.I.C.

PRESIDENT JAHANGIR (SWETZER) COYALIE

MR WILLIAM EDWARD PEARSON.

MR G. H. BARTER } (Secretaries)  
MR A. AYANGAR }

Dr EDWIN CANNAN, M.A., LL.D., called and examined

13,199 (Chairman.) You hold the Chair of Political Economy at the University of London?—Yes.

13,200 You have been good enough to provide us with a memorandum,\* on which I will ask you a few questions in order to elucidate certain points. You express, in the first instance, a general opinion in favour of a gold currency standard in preference to a gold exchange standard?—Yes.

13,201 You say that if you felt complete confidence that the principles of the gold exchange standard would always be properly carried out, possibly the weight of your opinion might be different?—Yes, that is so. I do not know of any country in which I have confidence.

13,202 That is the reason why you come to the conclusion that those principles could not always be properly carried out in the future?—Yes. I think it is very unlikely they would be carried out in the immediate future in almost any country.

13,203 Is your opinion in that regard based upon the experience of the past in India?—Yes.

13,204 In the past has India ever had a scientific and sound gold exchange standard? Let me point out the direction of my question. We have had a good deal of evidence to the effect that India has never had such a standard because, for instance, there was no legal obligation to sell the means of international payment either in the form of gold or exchange. In view of that it cannot be said that she has ever had a sound exchange standard?—If that is so that really illustrates my point, because if things had been properly understood she would have had it. It is really part of the same thing.

13,205 You come to the optimistic conclusion that things are better understood now. On the assumption that a sound exchange standard were to be established, would you still feel any confidence that the principles would be properly carried out?—I should not feel any confidence that the thing would always remain in competent hands. The management is constantly shifting and you never know who may come in.

13,206 You lay particular emphasis in that answer on the hands to which the management of the standard is entrusted? We have had a considerable volume of evidence in favour of entrusting the management of the currency and of the exchange to a Central Bank. Assuming that such a change were to be made, would that make any difference to the weight of your opinion in this regard?—I think it is very difficult to make a totally independent management of that kind, and such management is always liable to be much interfered with by something done by the Government. I observe that in Poland lately, while the Bank circulation has been decreasing the

Government has been increasing theirs enormously. I do not think you could in India dissociate the Bank management entirely from Government management, and make the Bank entirely independent.

13,207 In other countries we are aware that standards which are essentially exchange standards are administered with apparent efficiency by Central Banks. What is there peculiar in the Indian conditions which makes you less confident of a similar result?—I do not know that I am less confident with regard to India than with regard to other countries, except in this—that the Indian management is rather intractable, I should think, to change owing to different people going out from England. I do not think any country has lately given a great example of independence on the part of Central Banks.

13,208 You think a higher measure of independence on the part of the Central Bank is necessary than that which obtains in this country as regards the Bank of England and the Treasury?—Yes, I think it is.

13,209 You think it would be desirable there should be even a higher measure of independence than that with which we are familiar here. In subparagraph A of paragraph 2 of your memorandum you say "Therefore, if I were myself an Indian, I should prefer the simpler gold currency standard as being less likely to be broken down by bad management." Will you explain to us in what respects the gold currency standard is simpler and less liable to be broken down?—I should have thought it was fairly obvious why it is simpler—because it is less dependent on all sorts of transactions regarding exchange things which people do not understand, and more obviously dependent on simple currency conditions. I am rather impressed with the complication of the other system on reading about how it has worked in India in the last 20 years.

13,210 If I may suggest a comparison, not with the system which has hitherto prevailed in India, which undoubtedly had many complications some of which may be, in some opinions, held to have been unnecessary, but with a simple gold exchange standard based upon an obligation on the part of the Central Bank to buy and sell at fixed rates the means of international payment, what would you say to that?—I think when you get on to the bare bones of the gold exchange system there is very little difference between the two—some people say that this country is on a gold exchange standard system now.

13,211 Then I rather take your answer to mean that if the gold exchange standard system is defined with sufficient precision and reduced to its most scientific minimum, there is in your opinion, no great difference in simplicity between that and the gold currency standard?—There is not, really, but

\*Appendix A.

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[Continued]

and so there would be less need for changing them into smaller coins when spending them.

13244 That would be the result of lethargy shall I call it?—If you give that name to reluctance to undergo necessary inconvenience and effort, yes.

13245 I am afraid I still do not quite see how you differentiate in this respect between future hoards and existing hoards. If there is any real reason to expect future hoards to be made in the form of gold rather than in the form of silver is not that reason if it be a real one likely to overcome any disinclination to take a little trouble about existing hoards?—No I do not think it is. The difference is not very great and it would not be enough to overcome it.

13246 In this connection as regards the demand for gold have you considered the effect of the introduction of a gold coin on the popularity and use of five and ten-rupee Notes? Do you see any reason to apprehend the substitution of gold in circulation for those Notes in circulation?—No I do not see any reason, but of course I would defer to Indian opinion about that.

13247 In paragraph 5 you say The best way to impose the obligation is by requiring the Government to convert the silver into gold coin on demand as was done in the German monetary reorganisation of 1900. That is the obligation to keep up the value of the silver. As I follow your argument it is that the principal basis of the maintenance of the value of silver is the limiting of the supply?—Yes.

13248 And that is not only efficient but is actually effected in other systems. Why if such limitation is not only efficient but can be practically effected is it necessary to add the obligation to convert silver into gold coin in order to keep up the value? It is not found necessary in other systems is it—for instance in our own?—No but our own Government once gave an illustration of the necessity of it. For a long time they did not recognise the obligation to convert silver into gold coin. It is not officially recognised now but it is being done. It seems to me better to make no bones about it but to put the obligation on the Government by legislation so that there can be no doubt about it.

13249 What occasion have you in mind in our own case?—I had in mind the instance mentioned in the second sub-paragraph of paragraph 4 when there was an attempt made to popularise silver by the Government and when they issued so much silver that it accumulated in the banks and the banks wanted to get rid of it and the recognition of the obligation has taken place recently when seven millions were put in the currency note reserve.

13250 Then you would add this obligation by way of making the position more secure as regards the value of silver?—Yes.

13251 Even at the expense of incurring the important obligation of making also the coin convertible into gold?—Yes the same as the Notes.

13252 Then we come to your actual practical proposals for effecting the transition. In the first place during the period of what you describe as the cautious and gradual introduction of the gold standard how would you propose to maintain the exchange value of the rupee during that period before a gold currency standard is effectively introduced?—As at present I suppose I do not see that anything in this scheme would cause greater difficulty.

13253 How long do you contemplate that your gradual approach would last?—I think I would leave that open so that no definite obligation should be undertaken which might conceivably not be able to be fulfilled and I would vary it through fast or slow according as things went. My own impression is that it could be carried through very quickly without difficulty but if difficulties were found to the earlier stages then more time could be taken.

13254 The period would be long or short in accordance with the success with which each step met?—Yes. At any rate you would have time at any

particular stage to take steps to meet the difficulty, whatever it was.

13255 Then during the transition period you would as I understand adopt a gold value for the rupee which would be the already established actual exchange market value of gold rupees?—Yes. Did I say market value? I meant the value as established by whatever operations are going on at that time. I would not try to make a change preparatory to putting this new scheme in force.

13256 So if you were to initiate the system at the present time the present actual exchange value in gold rupees being about 1s 6d you would proceed upon that basis?—Yes.

13257 And you would maintain that value until your gold currency standard was introduced by those methods which are in substance that of an exchange standard and which are at present in operation?—Yes. I think under my scheme the gold standard would really come into force very quickly because it would be practically in force as soon as you got the bigger notes convertible into gold because they could be operated on by exporters.

13258 In connection with that proposal to which you have just referred making the bigger Notes convertible into gold, would you stop the exchange of silver coin into Notes?—I had not thought of that.

13259 Otherwise you are in substance making your silver coin also convertible are you not?—As the scheme is only to be applied by stages even that would only come in to the extent at which you could get bigger Notes. You have first to get your Notes and then exchange them for gold. If the Notes are not there you cannot do it.

13260 If the Notes are not there? You mean supposing a tendency were to develop to convert the silver at this first stage by dealers and brokers collecting silver and exchanging it—getting silver for big notes and then getting gold against the big notes—you could check that in short by refusing to issue the big notes?—I am not quite sure whether that is legal or not at present. I think it ought to be possible under this scheme to refuse to issue notes in exchange for silver coin. I do not know whether they have to issue notes now in response to silver coin.

13261 At present I think you can claim notes in return for silver coin?—Notes of any denomination?

13262 I must just confirm that I am not sure. It would be an essential part of your scheme that you should not be able to do so?—Yes. I should not leave a backdoor of that kind open so that the silver could be converted before I wanted it to be.

13263 This is Clause 11 of the Indian Paper Currency Act of 1913 (Reads clause) That looks certainly as if you had a right to demand a note of any denomination in return for rupees?—I rather think that should be suspended.

13264 Similarly you would also stop an exchange of small rupee notes into notes of bigger denominations? I should think so. It is rather a matter of detail for those on the spot to settle.

13265 So that that would be another backdoor by which your scheme might be broken into?—Yes in the theory of the subject but I very much doubt it in practice. But I should be inclined to stop them.

13266 You say you would make the notes convertible into gold coin at the option of the holder but proceeding by instalments and in the next paragraph you say you would apply the same method to the silver rupees taking them in instalments beginning with those of most recent date. You mean a rupee which is marked as being of such and such an issue will become convertible into gold but the previous issues would not be converted into gold?—Yes unless you can devise some other means of dividing them into instalments. I very much doubt whether it would be at all necessary to divide them into instalments. I merely throw out that as a suggestion.

13267 I was wondering whether that suggestion would really be capable of practical administration—

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[Continued]

whether it might not have undesirable consequences. Supposing an uninstructed member of the Indian public were to come with 20 rupees and to ask for gold against them, and he were to find that half his rupees could be changed into gold and the other half could not would not such an event as that be likely to administer precisely that shock in the confidence of the status of the silver rupee which you desire to avoid?—I think the probability would be that when the uninstructed member came with a few rupees like that you would convert them all without trouble. My plan I think, would stop large operations.

13268 Then we must consider that it may not perhaps be an uninstructed member of the public with 20 rupees. It may be a dealer or broker who has collected 5,000 rupees and who brings them for conversion and finds that a certain proportion of them are not convertible?—Well he ought to know.

13269 He would find that a certain number of his rupees seemed to be less good than the others. Would not that be likely to administer a severe shock to the status of the rupee?—It might give rather a shock to the ones that were not convertible, but it would not give a shock to the ones that were, which are the ones you have to deal with at the moment.

13270 This differentiation would be made between the various classes of currency and their convertibility. Would you see any apprehension of it having an undesirable consequence upon one class of currency in contrast with another?—No. I do not see how that could arise. When the thing once began people would understand it was going to be carried through and that they would all be on the same basis.

13271 I want to return to the general aspect of your proposal. In a previous answer I understood you to express the opinion that it would be prudent and necessary to take into account that the institution of convertibility might not pass so smoothly as one might hope, and it might result in a demand for conversion. May I say that it appears to me rather as if your scheme was based on the elimination of any possibility of any form of internal crisis occurring at any time. Might not some crisis due to bad trade or failures or so on lead to that demand for gold being realised which you expect in normal conditions would not be realised, or do you think one can eliminate those apprehensions?—I think so. I can not see why the process itself should cause any difficulty. If you have crises and difficulties they may occur independently of it, and I do not see that it is going to add to them in any way.

13272 I do not suggest that the crisis might be the consequence of the adoption of the scheme, but that it might occur from such causes as do from time to time cause crises in the confidence of the currency of a country. Such a crisis might lead to the materialisation of that demand which under normal circumstances would not materialise. I was wondering whether you think some consideration ought to be given to that? I do not see exactly how it is going to interfere with it.

13273 For instance that might lead to a general demand for the conversion of rupee hoards into gold. It might lead to a widespread demand, limited of course by the convertibility of the currency, of the conversion of notes and rupees in circulation into gold and thus be a very heavy drain on the gold reserves of the currency authority?—I think those difficulties would be met in the usual way. Those difficulties would be present after the whole thing was adopted, and I do not see that the transition is going to be made more difficult by them.

13274 I was contemplating such an occurrence occurring even after the full establishment of the scheme. The usual way, and the only way to meet such a crisis would be by the provision of gold would it not?—Yes. The whole thing is built on the supposition that you have enough gold to meet any demand.

13275 Would you contemplate that there should be at the command of the currency authority enough gold to meet any such potential demand even in a time of crisis which might cause the failure of the more optimistic expectation that there would be no substantial demand?—I contemplate what happens in any gold standard country—that you have to keep enough gold to meet the demands upon it.

13276 The gold required for India under these conditions would be gold for the substitution of whatever notes and silver could be spared from circulation in critical times plus the gold required for converting the hoards of silver. I think that would be so would it not?—Presuming that there are great hoards of silver rupees that might make the situation somewhat more difficult but I do not know that the fact that there are large hoards of gold would not make it rather easier.

13277 I was not taking into consideration the hoards of gold—But I think you have to.

13278 Surely not for conversion into gold? I was considering the additional demand for gold in times of crisis for the conversion of silver rupees and notes. That leads me to the question. Have you been able to form any opinion as to what extent and in what manner it would be necessary to fortify the reserves of the currency authority in order to enable it to contemplate with unanimity the transition to the system which you propose?—I have not formed any opinion further than that you must do it enough to satisfy the people. This country recently fortified its resources enormously by entering into a very expensive contract with the authorities in the United States, and it turned out to be perfectly unnecessary, but I am not saying that it was not politically necessary to do it.

13279 You contemplate it would be prudent for an Indian currency authority, in order to ensure confidence, to fortify its resources in some similar manner?—I should think it very likely, and I hope in a less expensive manner than this country did it.

13280 In what other manner do you think it could do it?—I should not have said "expensive manner." I meant "expensive terms."

13281 It can do it in two ways. It can realise its gold securities in this country in the form of gold, or it can raise fresh credits abroad. Is there any other manner which suggests itself to you in which it could secure further resources?—No.

13282 Those methods would involve additional expense in the loss of interest on interest-earning gold securities and the charges in respect of the fresh credits?—Yes.

13283 On a point of general principle I understand you are contemplating a gold standard really without a gold currency in the same sense as the one in the United States?—Without much gold currency at any rate. It might be more than there is in the United States. One way in which I think there would be more is a somewhat doubtful sense of "currency"—as that I think the hoards would be more likely to be made in gold coin than in gold bullion. At any rate I think there would be a tendency to have more in gold coin and less in bullion. Those hoards every now and then are spent, and the money would have a tendency to come on into circulation. So that I do not think you would get into such a completely goldless state as the United States is in.

13284 On the assumption that the introduction of the gold currency system were to lead to a substantial gold circulation in India would you then still favour the system?—It seems to me a question of degree rather. If there was to be nothing but gold circulating in India it would be a very expensive business, and I should begin rather to kick at the expense if I were an Indian.

13285 If the introduction of a gold currency were to lead to the substitution of gold for notes in any large degree you would look upon that as an unfavourable change would you?—Unfavourable as far as it went, yes.

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[Continued]

latter period, to the volume of production of gold in that period?—Yes, and to that not being counteracted by movements in the other direction in the way of demand.

13,305 I do not follow?—I mean that is only looking at one side of it. You have also to think of the demand side. The conditions of demand did not counteract those of supply. They did not go in the opposite direction. Otherwise the movement would not have been so strong.

13,306 I now come to your proposed scheme. If I have understood you correctly, what you contemplate is that the currency authority should not undertake the definite obligation to convert the rupee coin and notes, but rather to observe how, under your scheme, the matter would work. That was your suggestion, was it not?—I suggest that it should be done by instalments, so that if unexpected demands arose at any point you would be able to meet those, and take steps to meet demands that you might expect in consequence of that experience, or possibly to take longer in meeting them, or to take any measures that might be necessary. I do not mean to suggest that the thing should be entirely tentative. The way you put it rather suggests that I mean it purely as a tentative scheme. I did not mean that.

13,307 You would observe how things are going when the big notes are free for conversion, and then the smaller notes?—Yes.

13,308 You stated in answer to the Chairman that you would make it illegal to demand notes for rupees, and you also said you would stop the exchange of small notes into large ones because of course your scheme might be made nugatory by those exchanges?—Yes.

13,309 What do you think the effect upon the community would be if you enacted these things—if you stopped the conversion of rupees into notes and small notes into large notes? What effect would that have on trade in the country?—Would not it take place rather by fixing the maxima of the notes of each denomination than by suspending them? The way you put it rather suggests that all conversion of them would be refused. I am not sure that this discussion does not suggest that it would be better to issue a new set of gold notes instead of trying to use the old ones—whether it would not be better to begin with a gold issue of notes and not complicate it with these difficulties which have been suggested here. That comes to the same thing. I only suggested this scheme because it seemed to do without the necessity of printing a whole set of new currency, but perhaps it would be better to start by issuing notes convertible into gold and gradually substituting them for the silver notes.

13,310 I cannot quite follow how your scheme of issuing gold certificates would work. Would not that create exactly the same difficulties? Let me put it in this way. If there is a real preference for gold or gold notes would you not have to face exactly the same difficulties if you offered gold notes rather than gold coin?—I do not quite see the difficulty.

13,311 My point is that if there is a real preference for gold or gold notes and if you adhere to your scheme, the big notes would be in demand for conversion into gold or gold notes, and the same manoeuvres attempted of exchanging small notes into big notes and rupees into notes that happened to be convertible into gold. That, I understand, you propose to counter by making it illegal to convert rupees into notes and by making it illegal to exchange small notes for larger notes?—It would not be making it illegal exactly. It would be depriving the holder of the right to have them exchanged.

13,312 You said in reply to the Chairman, that you did not think that would produce a premium on that class of currency which happens to be convertible?—It ought not to if the scheme is going all right, because the rupee is worth 16 d and the rupee would be homogeneous. I do not quite see why some of them should be worth more than others.

13,313 Why did they pay in the East End early in the war 22 shillings for sovereigns? I remember there were prosecutions in the Court about it. Did they not pay a premium for exactly the same reason that they might pay a premium for notes that happened to be convertible into gold in India under your scheme?—The reason you could get 22s for a sovereign was that sovereigns ought to have gone out of circulation. The exchange ought to have carried them all away, but it was not allowed to do so, and in consequence, if you had any you could get a dishonest jeweller to give something more for them. But in this case the exchange would keep things straight, surely? There would be no chance of the gold coin going to a premium.

13,314 Was not the sterling exchange in those early days of the war at gold par, and remained so practically until the end of the war?—But it was of no importance, you could not do anything freely. The exchange was only a nominal affair. It was not really at that rate.

13,315 Then another point. Who, in your view, should be entrusted with the management of the currency in the future under your own plan?—I do not feel that I am familiar enough with Indian conditions to answer that question.

13,316 You would not care to express a view whether it should be the Government or a central bank or some other authority?—No. The only thing I have a view on is that I am rather inclined to think that conversion of bullion into coin ought to be done by the Mint and not by the bank offering prices for gold. I think it makes the thing altogether simpler if the Mint itself takes the business on and undertakes to do it without the gold coming through the central bank. Of course, it would work chiefly with the bank but I should not put it in the same wording as it is done in legislation in England. It seems to me a very peculiar wording and a wording which gives rise to a great deal of misapprehension. It seems to me it is much simpler to say that bullion shall be coined into a certain amount of coins than to say that the bank is to buy its bullion at certain prices.

13,317 How would you make the token money convertible into gold? Would you entrust that to the Mint, too? I am speaking of notes and rupees?—That would be entrusted to the Central Bank by circumstances, I suppose. Any excess of token coinage is always likely to drain into the banks, and the banks would deal with the central authority in the same way as they have done here. It causes little public comment that that £7,000,000 appeared in our currency note account without anyone having thought of it before, or having known anything whatever about it, but I suppose what happened was that when the banks got a good deal more silver than they wanted they asked the Bank of England to take it, and the Bank of England did not want to take it and finally arranged for the Government to buy it, and the Government bought it.

13,318 You do not attach any great importance to an amalgamation of the currency and banking reserves of a country in the hands of a central bank?—Yes, I think there ought to be amalgamation.

13,319 It is beneficial for the country to amalgamate them?—Yes.

13,320 (Sir Reginald Munt) In paragraph 6 of your memorandum, in describing the steps by which the transition to a gold currency standard could be effected you propose to "suspend all additional issues of silver coin, and stop all additional issues of notes redeemable in silver." How would demands for additional currency in India be met under that scheme?—By an introduction of gold and gold notes—notes redeemable in gold.

13,321 You mean that the people who required currency would have to bring gold into India and present it at the currency offices to obtain gold notes? Is that how it would work?—If additional currency



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[Continued]

was wanted it would come in in that form. Of course in the end more of the small currency might be wanted, but the demand for small currency is not so very rigid that the amount would be left alone for a short time—even for a few years.

13322 I was not referring to the small currency. I was referring to the total volume of currency. Taking the statistics on the absorption of currency in India during the 10 years ending 1924-25 the average annual absorption, as I have worked it out, was 27½ crores. That is notes, sovereigns, half-sovereigns and rupees?—Yes. Well, any increase in the total currency would be met in that way. This whole scheme suggests that does not it—that the future additions to the general volume of currency are to be met in gold or gold notes? I do not see what else the introduction of the gold standard could mean but that.

13323 I only wanted to be clear in my own mind how the scheme would work. You would practically force the import of, say 27½ crores a year, assuming the demand for currency remained on that basis, in order to meet the annual expansion in currency?—Yes, but that would be subject to there being some reduction from there being notes not entirely backed by bullion.

13324 I did not quite catch that?—The total amount to be imported would tend to be diminished by the addition of uncovered notes. So far as the notes were uncovered, of course the new currency would be met by them.

13325 I do not quite follow that.—Part of the additional currency required in every country where you do not desire bullion to be kept against every additional note is met by the increase of fiduciary currency. That is all that I meant.

13326 But under your scheme there would be no further issues of silver notes or rupees, so that the whole increase would have to be met by the import of gold?—By the import of gold or gold notes, or uncovered gold notes.

13327 Do you mean that the Government would issue gold notes payable in gold without receiving gold for them?—I presume that some of the gold notes would be fiduciary.

13328 I understood from paragraph 7 and its penultimate sub-paragraph that you intended that the reserve against notes should be held entirely in gold. I thought you meant that you would retain a full gold cover for all the gold notes that you issued?—I am afraid that is rather a mistake there. To be quite clear I ought to have said metallic reserves. I am sorry.

13329 So you would issue gold notes against a certain amount of fiduciary cover?—Certainly.

13330 (Sir Parakramdas Thakurdas) I think you said that between gold standard and refined gold exchange standard you did not think there was much to choose. I take it that you meant that technically there was not much to choose, but by actual experience in India the gold exchange standard has proved to be unreliable?—Yes, that is practically what I meant. If you had a gold exchange standard perfectly managed by perfect people it would not be practically different from a gold currency standard, but the difficulty is to get the perfect people.

13331 In paragraph 2 sub-paragraph 2, under (a) you say "People who have once become accustomed to paper currency do not wish to return to gold coins." I take it that there also you have this in mind, that when people get a currency which has their confidence they do not wish to see the coin but they are quite satisfied to use the paper which is backed by the metal which inspires their confidence?—Yes.

13332 To that extent there is no reason to doubt that if India also got the currency which she aspires to have and which has her confidence in course of time it is quite possible that the people may not wish to see the coin in circulation, but may be quite satis-

fied with paper backed by that coin, or by that metal?—Yes, that is so.

13333 Relating to hoarding of rupees, it has been put to you whether you think that gold is required (1) for conversion of silver in circulation, and (2) for conversion of silver in hoards. I think you replied that the Government would have to provide gold for both those purposes. Is it not reasonable to expect that in view of what is called the traditional desire of the people of India to hold gold rather than silver most of the silver hoards, if any exist, must have changed into gold already?—Well, that is rather suggested by some of the statements I fed about the immense amount of silver rupees exported from India during the high price of silver. It looks as if those must have been taken out of the hoards.

13334 The price of gold to-day in India in rupees is lower than it was before the war. It is about 21 rupees 6 annas per tola against 33 rupees per tola which is about the highest point that was reached during the war period and immediately after it. If the traditional taste or partiality of the people of India for gold in preference to silver is to be relied upon, would it be reasonable to infer that at 21 rupees 6 annas, which has been the rate ruling for the last 12 months, those who held silver rupees in hoards may have changed them?—Yes, I think so.

13335 It would then not be necessary to calculate this amount twice over, namely gold for conversion of rupees in hoard and rupees in circulation?—No.

13336 Regarding what you say in the last paragraph under your Section 3, you say you have no doubt in future hoards would tend to be made in gold coin. A view has been put before this Commission that if gold coin is available by Statute on demand, having regard to ordinary human nature and the fact that familiarity breeds contempt, if it does not breed contempt in this instance it may at least prevent a man from yearning for gold which is always available to him. Is it not likely that the hoarding habit of the people of India of which we hear so much may undergo a change, and that the people may slowly give up hoarding?—That is just what I suggested—that having gold coin was likely to cause less hoarding in the end because the temptation to invest it would be greater than it is with bullion.

13337 You would give it all the greater weight if this same view has also been pressed by Indian witnesses whose opinion ought to carry some weight?—Yes.

13338 And it would carry further weight if that view was also suggested by some of the important officials of the Finance Department who may have had occasion to give their views to this Commission in their personal capacity?—Yes.

13339 You were asked regarding what would happen in the case of a crisis due to an unusually large quantity of token coin being tendered. The danger of such a crisis is likely to increase as more token coins are minted, and if the present system is continued for several years more? The token coin I refer to is of course, the rupee?—Yes.

13340 The token coin in circulation at present in such a large quantity as 300 or 350 crores is already a considerable source of embarrassment to anyone who wishes to devise a scheme for a gold standard for India. If the same system of currency is continued for another 10 or 15 years the danger is not likely to decrease but it is likely to increase, is not it?—Yes. It seems to me that the situation has been much helped really by the rise of silver which took away a lot of the circulation, and it is rather a pity to go on some years and get back to the old state of things again.

13341 You were asked regarding the ratio, and you repeated as you said in your written statement paragraph 6 that you are in favour of the 16:1 ratio being confirmed. I wonder if I may ask what importance you attach to the word "established" which I see in your statement in paragraph 6? You say "To combine the reform with a departure from

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[Continued]

11th March shows the securities in England in the currency return as against the corresponding period of 1925. In 1925 the total was 20 crores and they are now 29 crores which shows that additional currency has been given in India against gold funds in London and those gold funds have been invested. If it were made possible when this additional currency is required to ship the gold to India annually there would thereby be a gradual and quiet augmentation of India's gold stock would there not?—Yes.

13 362 (Chairman) Is there any other matter that you would like to refer to?—No, the only remark I

would make is that I consider the fourth paragraph is the most important of all. I have not been asked any question on it and I hope it is accepted.

13 363 That silver rupees should continue to be unlimited legal tender?—Yes.

13 364 I suppose we may assume that the argument was so clear that it needed no further elucidation but it does not imply acceptance by all members of the Commission. The Commission are much obliged to you for your very kind assistance to-day?—Thank you.

(The witness withdrew.)

## FORTIETH DAY.

Friday, 26th March, 1926.

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., D.S.C., M.P. (Chairman)

SIR RAJENDRANATH MOOKERJEE, K.C.I.F. &amp; COVO

SIR DONCOT HASTINGS LERZEE WARREN, K.C.I.E.

SIR REGINALD MANN, K.C.I.F., C.Q.I.

SIR HENRY STRATHFORD, K.C.B.

SIR ALEXANDER ROBERTSON MERRAT, C.B.

SIR PURNCHANDAN THAKURDAS, C.I.F., M.B.E., M.L.A.

PROFESSOR JAHANGIR COOPERER COYNE

MR WILLIAM EDWARD PARSONS

MR G. H. BAXTER } (Secretaries)  
MR A. TRINGAR }

Mr. JOSEPH KITCHEN, called and examined

13 365 (Chairman) You are a manager and a director of the Union Corporation?—Yes.

13 366 And you are well known as a student of the matters which are contained in your memorandum,\* with which you have been good enough to supply us? In the first place I must express the Commission's recognition of what cannot be supposed to have been other than a very great labour on your part in preparing a most interesting memorandum and this by way of bringing out certain points which seem to need emphasis or elucidation. In the first place, I observe you stress the enormous increase in the production of gold in the first quarter of the present century. As I understand it a good deal of what you say about gold is devoted to showing that there is no reason to suppose that that rate of increase will be maintained in the future?—On the contrary.

13 367 You say that the principal goldfields of the world are either stationary or declining—that is in 1924 and 1925—and that there is a distinct indication that, although the world's recovery has perhaps not yet spent itself, any further advance, if it takes place at all, will probably be on a more moderate scale than in late years. The suggestion has been made to us in evidence that there is a substantial amount of low grade ore which can be brought into remunerative production by any rise in the value of gold. Will you give us your general view upon that?

—There is a very large amount of low grade ore which can be brought into production, but to a large extent it has been really already brought in. The cost on the Rand—which supplies over half the world's production had already been reduced to 17s. That will be further reduced, but I do not think you can expect any material reduction on that. The Transvaal itself, I think, is just on top of its highest point and from now on it will decrease, and in most

other countries of the world the output is either stationary or declining as I have said. Canada is one of the exceptions. Russia may return to its former £2,000,000 a year.

13 368 There is not known to you any potential source of supply of gold which might be brought in by a marked rise in the value of gold in the immediate future?—Only on the Rand, I think, and I have taken that into consideration in suggesting what the future output there will be.

13 369 The possible increase from the Rand is taken into account throughout your calculations?—Yes.

13 370 You think there is no other source of supply?—I do not see any supply of importance.

13 371 It has been suggested that we may expect great improvements in metallurgical processes which will enable gold to be produced more cheaply from low grade ores. We have been referred to the history of such improvements in the past. What is your general view about the future of metallurgical technique?—If you go back only as far as about 1880 or 1890, I do not suppose that the average recovery of gold from its ores was more than about 60 per cent. To-day on the Rand it is easily over 95 per cent, and approaches that figure, I suppose, in other parts of the world. Most of the improvement due to metallurgical advance we have already seen.

13 372 That suggests that there is not a very wide scope for improvement?—That is so.

13 373 Taking up the thread of your argument as we go along in paragraph 3 you say "For the five years to 1929 the world's production may be estimated at \$225,000,000, of which 1925 has already contributed £49,000,000. There is at present no reason to assume any higher figure for the further period in 1935."—Later on I estimate the following

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[Continued]

five years at £365 000 000 against £335 000 000, and that I think, is rather optimistic.

13374 Then your method is to take the gold consumption for trade—that is, the demand for gold for other than monetary purposes—and then you take the difference as compared with the output of the year as the amount assumed to be added to the stock of gold money in the world?—Yes, after deducting of course, the absorption of India and China, which are regarded as hoarding countries because in practice they do not disgorge gold. My figures of the world's stock of gold money, of course, apply to the world's stock excluding India and China.

13375 As regards India a demand for general purposes I see it as your opinion that the immediate future will probably show a sensible reduction in the very great imports culminating in 1924 and 1925?—It seems to me that India has over imported, that is it has overstocked itself, and that in consequence of that its imports will for the present at any rate be on a more modest scale. Of course that over stocking is only temporary, I presume. I do not think one can take the past year or the last two years as indicative of the immediate future.

13376 Over a uniform period of sufficient length the demand appears to remain remarkably constant but there will probably be fluctuations—I do not think that would be so altogether. As the gold output of the world went up very considerably after 1851, after the Californian discoveries, India came in with an increased demand with a considerable lag—a lag of the nature of 10 or 15 years. Afterwards when the gold production steadied down and became less owing to the petering out of alluvial the Indian demand also steadied down with a very considerable lag. Consequently, it might be thought in the ordinary way India's demand would continue for some time after the shortage of gold was actually felt.

13377 That possibility is based on the actual experience of the past?—Yes. As I point out the increase in the rate of addition to the stock of gold money became sensibly less after 1918. That would result after a very considerable lag. Perhaps you will have to wait until 1930 in the ordinary way for the demand for India to decrease, if it follows the experience of the past.

13378 The Indian demand cannot be counted upon to tell at once?—I think not.

13379 In paragraph 7 you say that the requirements of the industrial arts up to the war continuously expanded with the exception of one period?—In 1914 the industrial arts absorbed about £11 000 000 and in 1913–19 years later—£27 000 000. That is the highest figure. Since then the demand has been very sensibly less because of the effect of the war which has especially affected countries outside the United States, and I take the present consumption for industrial arts at about £16 000 000 only. From now on I would expect that to increase, and I would look to the past rate of increase as a measure of what that increase may be but for the purpose of this statement where I have tried to restrain myself as far as possible I have put the demand for the next five years at £18 000 000 a year.

13380 £18 000 000 for the immediate quinquennial period, and £22 000 000 for the following five years?—Yes.

13381 Do those appear to you to be well within what is reasonable to allow?—Yes. If for instance the world were to be normal in the five years to 1924 and if it then took at the 1913 rate it would be £135 000 000 instead of £110 000 000 for the five years.

13382 I observe you have taken an inside figure there and we come to the interesting point raised as to the position of China. You say that "there are indications that China's preference later on will be for gold which would be in the natural course of events." What was there in your mind as evidence

of that?—I was thinking largely of the history of India. It is a case of a poor country becoming richer, and China seems to me to be passing from the copper or bronze stage to the silver stage, and it will in due time pass to the gold stage. The fact that silver is passing to a certain extent indicated, I think, by my table No. 4. There you will see that the significant figures apply more to the war period, and perhaps should not be regarded too closely, but in the five years to 1919, 61 per cent of its imports of treasure were in the form of gold, and only 39 per cent in silver. China has imported gold to the extent of £11 500 000 in a single year recently.

13383 Taking the figures for the quinquennial period for 1924, to what do you attribute the disgorging of gold from China?—During the previous five years they imported £17 000 000 of gold which was extraordinary. It is not reflected in the previous figures, and the disgorging may be a natural repercussions. They also showed, during those last five years an extraordinary preference for silver. Their silver imports were quite extraordinary.

13384 As regards this question of China, what in your opinion would be the effect upon the demand for gold from China of a marked fall in the price of silver, or any instability of the silver market?—I do not think I have been able to get anything out of the figures with regard to that. In the case of India, if you take Government purchases, of course, the Government always bought silver when the price was highest but the Indian private demand for silver was always accentuated when the price was low. As far as I remember, I cannot see in the figures of China that that same thing occurred there. In fact if you compare this table with the Indian table (No. 3) you will see that very often the demand in China was absolutely different from the demand in India—in those five years to 1924, for instance when they put £61 800 000 into silver as compared with a much smaller figure in the previous five years. India, of course, to a certain extent had taken its large amount of silver in 1918 while China a biggest year was 1920.

13385 It is suggested to us that if a shock is administered to a lever by India selling silver or ceasing to buy silver China would tend to switch over from silver to gold as a store of value in currency. Are you able to express any opinion on that?—I am afraid I cannot answer that question. The Chinese figures are altogether exceedingly puzzling. They import large quantities of treasure although their merchandise balance (on published figures) is against them—quite the opposite condition to that obtaining in India.

13386 Now we come to the summary table in paragraph 8 in which we see that the balance available as money according to your estimate for the five years to 1929 will be £175 000 000 and that for the five years to 1934 it will be £125 000 000?—Yes.

13387 And that the stock of gold money per head will have remained unchanged?—Yes.

13388 From that you draw the conclusion quoting your important words in paragraph 9 "that the balance available as money in the 10 years must be expected to be much below the £54 000 000 and £49 400 000 per annum of the two quinquennia to 1914, while the needs of the world will be much larger than then"?—In the subsequent sections of this statement I show that the supply of money will be about 45 per cent of the demand—that is of the demand at the rate required for keeping up the world's normal economic development. In any case I think there must be a considerable shortage whatever view one takes of it.

13389 Following on the argument from that conclusion in paragraph 11 you point out that from 1920 there began a period of stationary or falling factors?—Would have but for the war. As a matter of fact the war came in to exaggerate all these figures but my point is that if the war had not taken place you would have had a turning point still at 1920. Prices

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[Continued]

13402 The view has been expressed that great economy of gold could be effected and ought to be effected by the general reduction of the percentages of metallic gold held by the central banks.—It is absolutely necessary that great economy should be exercised in the use of gold. The position absolutely calls for it.

13403 The conclusion of your argument is that unless such economy is exercised then there will be a real scarcity of gold?—Yes. You will have a long period of falling prices, reduced prosperity, and a lower standard of living and everything that goes with it.

13404 Before leaving this topic, let me refer to one question with regard to the actual Indian position. Supposing that the tendency were to go the other way in India and that there was to be a big demand for more gold for India, supposing that that demand was to amount to something in the nature of £101,000,000 worth of gold in the course of 10 years. Would you be prepared to express any opinion as to what effect that would have on the general question as analysed in your memorandum?—The effect would only be to increase the adverse effect of the shortage of gold which I contemplate under normal conditions.

13405 And would that be a substantial increase or an increase which might be neglected?—It would be a substantial increase. One must not however exaggerate it. It is £101,000,000 against £2,400,000,000. It is a matter of 4 or 5 per cent. You can get it from my figures in paragraph 8. I estimate there the balance available as money for the 10 years to 1931 at £300,000,000. You have got to set the £101,000,000 against that. Then, of course, it becomes a much larger percentage.

13406 That is, of the addition during the five years to 1927, which you estimate as £175,000,000?—For five years, yes, or for the 10 years to 1931 £300,000,000, and that is roughly the 10 years you have in view, I think, in the questions which you have put.

13407 That is so, so that £101,000,000 would be a taking off of about one-third of the total amount which should become additionally available?—Yes, and thus total amount as I say later on is only 4½ per cent of the world's requirements on the normal scale of economic development.

13408 In order to keep things going even as they are?—To keep them stable—not to lead to an increase, but merely to keep them stable.

13409 In the next section you deal with the interesting topic of the increase of gold needed to keep pace with economic development, and you draw attention to Prof. Gustav Cassel's work on "The Theory of Social Economy." I understand the principal difference between your calculations and those of Prof. Cassel is that Prof. Cassel takes the total amount of gold available, and you take the total amount of gold available for monetary purposes?—He takes the total amount of gold supposed to have been produced in the world from remote times while I take only that portion of that total gold production which I can see has gone into monetary uses. I base it upon the aggregate stock of gold money. He bases it upon the aggregate total production.

13410 You explain why you consider this second method more preferable?—Yes. I give an argument for preferring the other method, but I cannot follow his argument.

13411 The first important figure is given in paragraph 14, 1860-1886 and 1886-1910 are the periods to which you refer. There was an average annual rise of 2.79 per cent in the actual gold supply?—That is Prof. Cassel's figure.

13412 That suggests that we are going to find that the total increase necessary to keep pace with economic development will be something round about 7 per cent?—Yes. I arrive at very much the same figure based upon the stock of gold money. There

is, however, an important difference in the amounts involved, as I mention later.

13413 It is Prof. Cassel's conclusion which is quoted in paragraph 15, that "an annual production of 1 per cent of the supply at any time is a condition for the maintenance of the general price-level unaltered, as far as the gold supply is concerned?"—Yes.

13414 You point out in paragraph 17 that his conclusions are shared by many economists and that your conclusions in your Trade Notes Chart, arrived at by a slightly different method, are practically identical?—Yes.

13415 Your conclusions, I think, are finally summarised in the table in paragraph 22?—That shows the rate.

13416 I am not quite sure that that table is perfectly clear to me at first sight. Will you explain it a little?—First of all, I have taken two sets of periods. The table ought to have a double dividing line in the centre, it would make it clearer. I take first of all the period 1831-1907, splitting it up into two portions. I also take the period 1841-1913, splitting that up into two portions. That is, in each case we divide at years where the commodity price index was at the same level, and whether you take the one period or the other the figures are approximately the same. The stock of gold money must increase something like 7 per cent compound in order to support the rate of economic development, judging by pre-war experience because these are all pre-war figures.

13417 What is the significance of the figure of the difference between the increase per cent of the stock of gold money and the world's population?—Only this. The mere increase in population, which is roughly 1 per cent per annum—or actually under 1 per cent per annum—alone requires an increase in the amount of gold money if things are to remain absolutely stationary and if there is to be no economic development at all, but of course one's demands are increasing all the time, and they increase at a much greater total rate than the increase in population. The population increases 1 per cent, but the demand for gold increases 3 per cent—three times the rate, which is what one would expect but there is a tenfold, as shown by the figures for the percentage required to fall with time, as gold money becomes more efficient, and as more credit is built up on it. But of course a smaller percentage at a later period means a much bigger amount in actual gold because of the increase in the stock of gold money which is continually taking place.

13418 Can you refer us to any place in your tables in which one can find for comparison with this required percentage increase, what your estimate will be of the actual percentage change of the stock of gold money for the same periods, or for either of them—the actuals and estimates as compared with a trials and estimates?—There is the table in paragraph 10. You remember there that I divided up the period since 1807 into periods, and I showed the times when the world's stock of money was increasing at the rate of only 1 per cent then at the rate of 4½ per cent after the Californian and Australian discoveries, then it fell to 1½ per cent, then it rose to 3½ per cent and is now about 1½ per cent. In each of those periods, when this stock of gold was increasing at the rate of 1 to 1½ per cent (which is very much less than this 3 per cent we have been considering) you have stationary or falling economic factors. Prices fall, trade remains stationary in the aggregate, and so on. Whenever these figures exceed the 3 per cent, then you have rising factors. Say, the figure you were just asking for is the 1.4 per cent the present rate of increase in the stock of gold money is about 1½ per cent while 3 per cent is required.

13419 I was looking for the purposes of ready comparison to find where you set out in your figures, if anywhere, your estimate as to the future of that present figure of 1½ per cent?—In the table on

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[Continued]

follow that these figures of the past do not show any falling off in the industrial demand, or any appreciable falling off. It simply shows that for a time it became steady.

13,433 It did not go ahead?—It did not go ahead 13,433 In the adverse periods?—No.

13,440 Then we come to silver?—May I just refer to paragraph 30? You ask in the questionnaire for an estimate of the increment in the stock of gold for monetary purposes needed to keep pace with the economic progress of (a) Great Britain and (b) the rest of the world. I only want to emphasise that I draw no dividing line between Great Britain and the rest of the world. What affects one will affect the other. British prices are world prices and world prices are British prices and the same thing would apply very largely to India.

13,441 I apprehend that in your analysis of the silver position you are laying emphasis on the difference between conditions of production of silver and gold amongst the most important of which we find that silver is largely won with other metals and as a by-product?—Yes. I draw some rather striking parallels between the occurrence of silver and gold which rather brings that out.

13,442 In paragraph 31 you say, "The estimate now made indicates that to the extent of about two-thirds of the output silver is not won for its sake alone, but either as a by-product or in conjunction with gold. That is, 66 per cent plus 7 per cent or 63 per cent altogether, comes from what you describe as gold ore or base metal ores?—Yes.

13,443 And 17 per cent only from silver ores? From that you draw the conclusion that, generally speaking, high output is consistent with low prices, and low output with high prices?—Owing to the production of silver as a by-product, as long as something is obtained for the silver, a fall in the price does not make it unremunerative to bring silver on to the market?—It so happened that when the price of silver was going down most rapidly the production of silver was increasing at the greatest rate. At the former Commission, Professors Carpenter and Cullis said that the great decrease in the price of silver from 1873 onwards was due to the increased production of the metal, but I think most of the members of this Commission will understand that it was probably due in very different causes—the virtual demonetisation of silver by Germany in 1871, the adoption of the gold standard by various countries which followed almost immediately, and later on the closing of the Indian mints in 1893.

13,444 That is stated in paragraph 34, where you point out "The object of the present remarks is to indicate that in the past the output has been largely—in the aggregate and over long periods—Independent of price, and that a considerable increase in production may occur in spite of falling prices and vice versa?—The production can increase very considerably, even if the price is falling. That is what the past has shown.

13,445 And you say that a further reduction in price unless exceptionally severe, would not necessarily have any but a gradual effect on production, or at least that the effect would be considerably less than might be expected?—Yes. There would be a considerable lag. It would have its effect, but I think one could easily exaggerate what that effect would be.

13,446 This is of course a conclusion to be applied practically to the problem as to the effects of sales of silver by India under some conceivable change in currency policy?—Yes.

13,447 With the effect of that I will deal more closely in connection with the succeeding part of your memorandum. In the next part you deal with the general relation between the demand for and the supply of silver and you give a summary of your future estimate in paragraph 46. You give a total expected annual consumption for the 10 years 1926-1935 of 230 to 300 million ounces?—Yes and the expected production is in the preceding table.

13,448 The expected production of the same period you give as 200 to 300 million. In other words the expected production is equal to, if not slightly in excess of, the expected consumption?—Practically the same. That is quite an accidental conclusion. I did not try to work the figures towards each other. They happened to come out so.

13,449 I was wondering if that was so?—It is a fact that the demand must, in the end, be equal to the supply. That is an economic fact, but it so happened that I attacked this question of consumption and production independently, and they happened to arrive at more or less the same figure.

13,450 When you say that the demand must, in the end, be equal to the supply, you mean there are sufficient possibilities of expansion in the world's demand for silver to provide an outlet?—No, I do not mean that exactly, but that there will always be a demand at a price. If the production of silver were to go up 50 per cent the excess would be absorbed at a price, but the price would suffer, of course. In the same way if the production were to fall to half of what it is people who consume silver would necessarily have to consume less and pay more for what they consume.

13,451 In following the figures of demand and supply, I received the impression that it was a picture of what you might call a weak market—that is, a supply which is equal to, if not in excess of, the demand?—I should rather be inclined to think the contrary, if anything. As I said in connection with my figures for gold, I think that this consumption can easily be bigger than these figures, especially for coinage. I do not know if I have allowed sufficient for coinage. I should expect in practice the coinage figures to be bigger than those I have put down here. Take China, for instance. I have put down 30,000,000 to 50,000,000 ounces a year, but on published figures China was coining about 100,000,000 ounces a year in 1922 and 1923.

13,452 The figures do not indicate falling prices in the silver market?—Not in themselves. They would be affected, of course, by the general fall in the price level. If there is to be a general fall in the price level there should be a general fall in the price of silver.

13,453 Silver would follow the other commodity markets?—Yes. Silver always goes up and down with anything else, i.e., the trade cycle movements or annual variations are similar. The trend, however, is different in the case of silver from what it is in the case of base metals and commodity prices.

13,454 As regards the silver market itself, you are of opinion that the prospect of a substantial difference between supply and demand indicates rather a stiffening of prices in the silver market?—Yes, but, as I say, the fall in the general price level has to be remembered.

13,455 It would be subject to general influences?—If the price level were to remain the same for commodities in general, these figures would indicate not lower prices of silver, but if the demand were higher than anticipated, as is more likely than the reverse, I would expect the price to stiffen.

13,456 I do not think it can be better summarised than in your words in paragraph 50, where you point out "Thus supplies would be increased by 15 per cent, but in order to absorb them those who have the choice of buying would (unless silver were to cease to be a marketable commodity) be compelled to increase their takings by an average of 38 per cent." Will you explain that a little further?—I am taking my previous estimate as to what the output of silver is like to be over the next 10 years—that it will increase to a matter of 200,000,000. The figures are the same as those I have previously taken. Then I am assuming that in the case of a selling of those 70,000,000 fine ounces annually by India there will also come to be a demand for Indian coinage which I have previously estimated at 30,000,000 ounces a year. I do not know if that is correct, but I think

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it necessarily follows. So I assume that demand falls away entirely, and that the courage of the rest of the world would not be affected at all by any change in the price of silver. It would be affected perhaps to a very slight extent but I do not think it would be appreciably affected. Countries are not very likely to increase their silver currency merely because they can get silver cheaper. So that the whole of the demand would be drawn upon India's private imports, China and the industrial arts, and in order to make up the gap caused by the action of the Indian Government, if it took place in that way, they would have to increase their demand by an average of about 40 per cent in order to absorb that amount. That increase, of course, is a very big one. I have no doubt it would take place, but it would take place at a price.

13,434 You say this would mean a profound change in the position and it could not be effected suddenly and must take time. The more quickly it were applied the wider would be the variations in the price of silver and the effect on production. In speaking of the general future of the silver market you describe the prospect as one of firmness of prices.—If the general price level remains the same.

13,435 Could you explain what would be the general effect upon the silver market of these sales, as regards the actual effect upon prices? You deal with it in paragraph 54, do you not?—In paragraphs 51 and 52 you see where I say that for the years from 1902 to 1913 there was a steadily rising curve of the money amount which the world was prepared to pay for silver production, and that if that line were continued to 1930 and 1935 it would show prices for each of those years of 30d per fine ounce. I do not believe that in the position, of course. The war has changed many things, and I am ignoring entirely the war period. I say that at this time were we intended we should arrive at a price of 30d per fine ounce at 1930 and 1935. But if Indian private demands, and China's demands and industrial arts were asked to take this additional amount, I am assuming they would pay the same total value for the unaltered amount that they would pay for the ordinary amount otherwise. That alone would decrease the 30d per fine ounce to 25d. Then I go on to say that I do not believe that that fall would be restricted to 25d owing to the various qualifications. I have set out—the five points which I have set down in paragraph 54.

13,436 What you call the five additional points?—Yes. They greatly qualify the position.

13,437 I think it has been suggested that the result of the sale of these 70,000,000 ounces a year would be to reduce the price of silver to 21d.—Of course you gather from this that I think the fall would not stop at anything like 24d.

13,438 You do not find it possible to say where it would stop?—I do not want to predict.

13,439 Only you would not build anything on the 21d.—That is so.

13,440 You say in point 5 “Much would depend not merely on the Government's action as regards silver, but also on its policy as regards gold. If that were in the direct or of introducing a gold currency it would largely augment the already excessive demand for a metal that threatens to be in increasingly short supply, and the prolonged fall in prices generally which from other considerations has been assumed, would be considerably accentuated. This would, of course, have its effect on the price of silver.” That is a general reservation which you have already made?—Yes except that that downward line from 1924 which I have been suggesting would become still more downward—the downward movement would be accentuated.

13,441 This point has been put to us in evidence, and I should like to put it to you. It has been stated that silver follows general commodity prices and as general commodity prices are about 50 per cent more

than they were, the price of silver is likely to go up to above 40d. The argument is that silver is now for some reason or other which is perhaps not explained below what you would expect to find it in view of the general rise of commodity prices since the war. What weight do you give to that observation based upon the relation between the price of silver and general commodity prices?—Well, I think my table in paragraph 51 throws some light on that. I there show that the price of silver does not follow the ordinary rates. In the case of base metals the prices have gone up in a marked degree while the price of silver although the output has not increased to anything like the same extent as that of base metals has not followed the base metal figures at all. It is possible that silver can go up to that extent, but I should not expect it generally.

13,442 Can you suggest any explanation of why it has not risen to the same extent as other commodities?—No. Of course silver has had some very hard knocks. It used to be the basis for currency and it has been knocked out as being the basis for currency. Its uses have been to a large extent curtailed in certain directions at any rate.

13,443 That factor is a continuing factor?—Yes. I do not know if this has anything to do with it, but it is also a luxury metal rather than a necessity as in the case of the base metals, although so far as that is concerned you would expect in times of prosperity the price would go up quite as much as in the case of the others.

13,444 In that connection it has been suggested to us that there is likely to be an increased demand for silver for coinage among the nations of the world. Have you any view on that?—That is very very possible. I think I mentioned before that I have taken what I consider modest figures for coinage, and it is in coinage that I would expect the demand to be a good deal bigger.

13,445 You took the case of China?—I have some figures here for 1921, 1922, 1923 and 1924, showing the amounts of silver used in world coinage. I have the figures for net coinage. The United States Mint's table for the world for net coinage was 87,000,000 ounces in 1921, 165,000,000 ounces in 1922, 157,000,000 ounces in 1923, and 103,000,000 ounces (which is an incomplete figure) in 1924. But that includes India and China. China comes in in the two middle years for 99,000,000 and 94,000,000 ounces. Excluding India and China the absorption of the world for net coinage was 63,000,000 fine ounces in 1921, 71,000,000 ounces in 1922, 66,000,000 ounces in 1923, and 60,000,000 ounces (which is an incomplete figure) in 1924. That is during the period when the United Kingdom, having debased silver from the basis of 92½ per cent to 50 per cent fine was actually turning out silver at a considerable rate—at a rate of 15,000,000 to 20,000,000 ounces a year on balance. You find in 1924 Germany came in and took 21,000,000 ounces. Russia came in in 1923 taking 8,000,000 ounces in that year, and 12,000,000 ounces in the following year. You have Austria coming in with 5,000,000 ounces in 1924 and so you see the Continent beginning to wake up and absorb silver for coinage purposes. Of course, on the Continent during the war and particularly afterwards an immense amount of silver was turned out. Silver coins virtually became demoted, partly by the people themselves and partly by the Governments. That has left a vacuum that has to be filled. I have not figured out the amount of filling required but it is quite possible that there may be during the next few years as Europe gets on its feet a very considerable demand for silver for coinage purposes.

13,446 Are there not big reserves of silver to meet this demand and fill this gap held here or there?—There are very big reserves in India, but whether they will come out or not I do not know. I believe during the war in the case of one hoard in India a very big amount came out—I am afraid to mention the figure—where one of the ruling princes turned out many, many tons of silver which came to this

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country, but in general, of course, the silver does not come out of India, but it continually goes so

13,470 Are you aware of any big holdings of silver anywhere else which are demobilised at present?—No, there is the United States holding of silver, but they got rid of that for a time by selling it to India. They have now replenished it and intend to keep it.

13,471 I thought that there was a lot in Switzerland?—I should not think so.

13,472 Nothing substantial, you think?—No, Switzerland is in fact using very little. Switzerland is using very little for coinage now. It is of the order of about 1,000,000 ounces a year.

13,473 (Sir Purshotamdas Thakurdas) May I ask what you have in your mind when in paragraph 4 you exclude India, China and Egypt in your calculation about the stock of gold money in the world?—Well, I regard them as absorbing or hoarding countries. My world stock of gold money is supposed to represent the amount of gold money which influences prices and conditions generally, but in the case of India there is no effective gold money now.

13,474 But the gold bullion which Indians are supposed to hoard is capable of coming out whenever the demand for it is such as to make those who hoard it want to release it?—But it never comes out.

13,475 You go on the basis that it is for all practical purposes dead?—Yes.

13,476 If it came out would it then affect the basis of the calculation you have made?—Yes, and so in the case of silver if silver came out but in practice it never comes out. I believe if you go back the last 60 years there were only two or three years—in fact, I mention them somewhere here—in which India turned out any gold at all, and it immediately reimported much more.

13,477 But if it happened that the gold bullion which was being hoarded by Indians was used for purposes of currency, that is if they took it to the Mint for conversion into gold money, it would affect the calculation which you have so fully put before the Commission?—Yes.

13,478 Gold ornaments are known to have been sold whenever the person owning them is in difficulties. In such cases the ornaments are taken from the ladies of the family and are either mortgaged or sold—say, in the case of a merchant who is in difficulties. How would you regard that? Would you regard that as one of gold for the purposes of gold money in the world?—No, because I take it it passes into other lands which are in effect hoarders in my sense. Perhaps the word "hoarding" is not the right word, but rather "absorption." It is absorbed from the world. It is no use as money, surely.

13,479 It is of no use as money because there is no gold currency. If there were gold currency a man would take the bullion to the Mint and say "Mint this" and then it adds to the money in circulation does not it?—If you assume that I was going to say that there is supposed to be gold currency in India.

13,480 Not since 1920?—But in fact.

13,481 (Chairman) The sovereign is legal tender?—It is still legal tender, and there are still gold moulars in existence but they are hoarded.

13,482 (Sir Purshotamdas Thakurdas) The sovereign is not effectively legal tender because one can only get 10 rupees for it from the Government under the existing statute. Since 1920 the sovereign is out of it as legal tender, if I may say so. The policy adopted for India has been such that gold must lie in India as a commodity that is something which is dead for currency purposes. If that were not so and the sovereign were legal tender, say, for 15 rupees or 13 rupees and odd annas, then a man holding gold bullion if he felt that property or commodities were going cheap would take his gold to the Mint and say "Give me coin for it. Would not that be so?—I am afraid I cannot answer that question.

13,483 If gold was legal tender in an effective manner gold bullion which is supposed to be hoarded by Indians would not be cut out of the stock of gold

money in the world?—I am afraid it would in my figures, because I make them up in my way. It is a convenient way of putting all the stock of gold money in the world—to regard all the gold in India as hoarded. So I do it for that purpose. In practice, of course, it may be that some of that gold will get into circulation in India.

13,484 If you agree with me that in practice it is possible that some of that stock of gold may get into circulation, then the calculation on which you go would be seriously affected?—Well?

13,485 You cut out of the stock of gold money in the world all the gold which has gone to India, China and Egypt?—Yes.

13,486 If it is taken for a period of 200 years, or a shorter it is that your calculations are based on, it would make a substantial difference?—Yes, but I could hardly imagine that all the gold which has gone into India, or any appreciable proportion of it, would ever come into use as money. It would make a difference, but I should not think a serious difference.

13,487 May I assume that you take it for granted that gold which goes into India never comes into effective monetary use?—I do not think it does. I do not think it affects prices.

13,488 If I hold gold worth, say 100,000 rupees in bullion and at a period when I happen to have suffered a loss in business, or when I want to expand my business I take that gold out of my hoard and borrow on it, do you consider that as my putting the gold to use as gold money?—No, that would be using it as a commodity.

13,489 If I sold it?—Yes. I presume the person who buys it from you would also use it as a commodity, and not as gold money.

13,490 Why do you necessarily take that view—because you take it that all the gold which goes into India is used as a commodity only?—Yes.

13,491 So that your presumption is that all gold which goes into India is used as nothing but a commodity, and is incapable of use for the purposes of currency?—Yes, and I understood you to say that that was so. I understood you to say that gold does not circulate.

13,492 It has been so since 1920. There is no question about it, and I do not think any of my colleagues would disagree with me there. Then in that case one may come to the conclusion that you would like some scheme to be devised by which this quantity of gold which went to India was capable of being used as money, namely for the purposes of gold circulation?—I suppose so. As I said before, the object is to reduce the demand for gold as a commodity, and to divert it to monetary purposes.

13,493 And anything which aimed at that object or effectively served that idea is what the world needs most at present?—Well, I do not know. It would depend what use you would make of the gold when you turned it into money. If, for instance, you were to mint a gold currency, I do not think that would be making good use of the gold.

13,494 It would not be the best use of the gold, if the gold coins were very widely used?—If they were to circulate at all.

13,495 Even to the smallest extent?—Yes. Of course, if they are only in circulation to a very small extent, then it does not affect the whole question very much, but gold is far more efficient when it is in a reserve for instance, than if it is in the hands of the public.

13,496 Gold in reserve and a small quantity in circulation if it tended to bring out the gold from hoards would meet with the world requirements, that you have in view?—Whether it would meet the requirements I do not know. The requirements of the world are pretty big. It would go towards meeting them.

13,497 It would meet the requirements of the world to a certain extent—to the extent that gold which is at present held as a commodity in India

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13,516 Not much as a token?—But has not it been put in circulation to the extent of £20,000,000 or so?

13,517 And it has kept in circulation more or less. I have not heard of much gold coin having been held back and put into hoards. That is a matter about which I was wondering whether you would give us any figures. I do not know of any figures which show that a good deal of gold in circulation disappeared and went into hoards—it would at least be a very big speculation to put gold in circulation in the hope that gold would come out of the hoards in India.

13,518 Why do you think there should be a difference between how gold currency affected people in Switzerland and how it would affect people in India?—In India it is an age-long habit. In Switzerland it was the habit of a year or so. After they had held the hoards for a few years, they turned them out at a convenient opportunity. In this particular country we had hoarding at the beginning of the war, but that hoarding after a while to a large extent ceased.

13,519 The age-long habit in India may have as its basis that since 1830, at least, gold currency has not been available to the people at all.—You know better than I, but it has from time to time, has not it? Gold mounds have on two or three occasions been mined.

13,520 After 1900 once—very small quantity?—Yes.

13,521 Then they found that the gold came back perhaps because the period immediately followed one of the most severe famines that we have known. 1900 was a very bad year, I think I may say.—Yes. Of course it does not follow, but this is my impression. It is a matter I am not familiar with, but I imagine if you were to coin gold and put it into circulation in India the effect would not be that it would call out the hoards, but that the gold itself would go into the hoards. It would cease to circulate.

13,522 I was wondering if you could tell us what this assumption of yours is based on—is it simply on this that in India people have hoarded gold for years now?—Yes.

13,523 You do not think that that would have any relation to the fact that they did not have any gold currency available to them ever since 1835 or 1830? Since the rupee was coined I understand except for short intervals gold currency was absolutely for bidden?—They have had silver available and yet they have hoarded silver to an extraordinary extent.

13,524 In ornaments?—Yes. I use the word "hoarded" in a general sense. You understand what I mean—absorption.

13,525 Absorption both for ornaments and as bullion?—Yes, bullion, and mainly ornaments. I take it.

13,526 An ornament is a different thing from hoarding bullion. Bullion is practically a commodity. Ornament is a different thing from that—I understand the people of India generally would hoard as I call it in the form of ornaments only. When I use the word "hoarding" I include the industrial arts in India. I include ornaments, of course, and it is mainly ornaments I take it.

13,527 But I assume that you would object more to gutting metal in pits or in safes merely as bullion. Hoarding in the form of ornaments is a thing which cannot be helped much. It is a common habit with women and it will take a great deal to change it.—Probably.

13,528 Just as you see in the West flower vases and other knick knacks of gold or silver and one does not object to it or to a gold cigarette case. It is a luxury, but I have not heard anyone object to a gold cigarette case or a gold match box. It is a luxury and it has to be paid for by those who want to go in for the luxury. I thought that your "hoarding" particularly referred to gold in bullion.—No. I use the word "hoarding" in rather a bad sense,

perhaps. I do not quite mean hoarding by it, because, I take it, there is very little real hoarding in India, either of gold or silver.

13,529 If the people of India cannot afford either pearls or diamonds for the decoration of their women-folk, surely they must have recourse to the cheaper things they can afford, which is either gold or silver?—Yes.

13,530 To that extent it is not a thing that either can be or should be objected to.—No. I should think if most of the gold and silver is used in the form of ornament the chances are you would not be very successful in getting that to come out of its use.

13,531 But it is rapable of coming out of its use when the man who possesses it wants to realise it?—Yes. That only applies to a small portion, I take it.

13,532 (Sir Purshottamdas Thakurdas) That is perhaps a matter of information of which I have none.

13,533 (Sir Reginald Mait) I want to be quite clear as to the method of construction of this very interesting chart of yours.—Yes.

13,534 It is explained in paragraph 24 of your memorandum. You have drawn a curve "as much above or below the horizontal base chosen as the stock of gold money is above or below straight lines in certain periods between the years when prices and the bank rate stood at the same level." That means "respectively," does not it? It does not mean that prices stood at the same level as the bank rate?—No.

13,535 It means when prices stood at the same level as prices?—Yes.

13,536 The nine years' average refers to the bank rate only?—Yes.

13,537 I wanted to clear up that point?—I am sorry it is so badly expressed.

13,538 The word "respectively," I think, would make it quite clear. Looking at the chart in the year 1900, the prices line apparently, returned to the same level as in 1851, according to the chart which I have?—Yes.

13,539 You took the level of 1907. I do not know whether there is any particular reason for that?—Well, the year 1900, you will notice, was a peak. It was not an average year at all. If you take the year 1907 and averaged it with the year before and previously you will find that it comes on to the line.

13,540 You were taking the broader movements, and ignoring the short movements?—Yes, it sometimes is rather misleading to take a single year.

13,541 Quite so. Do you think that silver had no influence on prices in the years preceding 1873, when silver was demobilised on the continent of Europe?—I suppose it had.

13,542 There is rather a close correspondence between the gold line and the prices line during that period. I wondered whether silver had no effect, or whether this effect was on the same lines as gold?—Well, credit was then hardly built upon silver, at any rate to the extent to which it is on gold. Of course I know the gold standard came into increasing use as the nineteenth century went on, but before it came into use in any particular countries was there any great amount of money based upon silver as such?

13,543 At any rate the chart bears out your argument?—When the gold standard came in, the use of silver as money probably increased also, but not in the same ratio.

13,544 Your chart does appear to justify you in ignoring silver?—I think so. Of course the further you go back the less reliance you can place upon these conclusions, but the nearer you get up to the date the better. As I mention here the attempt to carry back to 1800 the correspondence between the total gold supply and the prices of commodities has met with very indifferent results, and I could not continue that further back.

13,545 It is clear from your chart that up to the outbreak of the war there was a very close correspondence between the supply of gold money and prices. That indicates does not it, that the credit that could be built on gold was during that period,



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subject to very rigid limitations?—I do not quite follow that I do show here that the percentage increase in the stock of gold money fell off with time. That is the gold became more efficient.

13546 But there was a steady correspondence between the curve of prices and the curve of gold money available?—Yes, but remember that that gold money went up at a different rate, a decreasing rate first at 31 per cent and then at 29 per cent. To that extent gold money became more efficient apparently.

13547 To that extent only?—To that extent only. It might temporarily have had much more effect. I am dealing here with the trend and not with the trade cycle movements—not the annual variation.

13548 But the inference to be drawn seems to be that the amount of gold money available was the determining factor in prices?—Absolutely, I think. I do not know if you happen to be at all familiar with my Trade Cycles Chart which has been published once or twice. There I give the stock of gold money, and I also give about 12 or 15 different economic factors over a long period. You can see the absolute correspondence between those curves. You can see the influence of the stock of gold money on these curves—at least, I think I can.

13549 It does bear out does it not, the suggestion I put to you that the amount of extra money that could be produced by credit was strictly limited by the gold basis? What I am leading up to is the difference between pre-war conditions and the war period and post-war period, when apparently another factor comes in. The amount of credit or the amount of money is not limited to anything like the same extent by the amount of gold available?—You mean that a great deal more credit is now to be placed on a given amount of gold?

13550 It looks like it from the chart and the course of prices.—Yes, gold will become more efficient. I think I mentioned in reply to the Chairman that according to these figures there seems to have been an increased efficiency in the use of gold over the period that I take, and that that rate of increase has probably advanced considerably since the war.

13551 You are using efficiency in the sense that the same amount of gold goes a longer way?—Yes.

13552 It is made greater use of?—Yes. I use here the curve of the world stock of gold money. It ought to be the curve of money in the widest sense, but it is because I have only got the figures for the world stock of money that I use it. One would prefer to use the curve of money in all forms if one could obtain it but it is unobtainable.

13553 The point I wish to examine is that up to the time of the war the amount of gold available was the dominant factor in controlling the amount of money available?—It was more of a dominant factor than it has been since no doubt.

13554 It seems to me as if another factor has come up. Does it follow from previous experience that the amount of gold available will in the future have the same dominance as it had in the past? That is the point on which I wish to base your opinion. It may go further but gold still would be the controlling factor, would it not?

13555 That is the question which I raise. I think the world is going back to gold but it may go back to it on a different and more efficient basis.

13556 It has been put to us by another witness that in future gold will not be the dominant factor, and that the central banks and financial authorities will be able to control credit to a much greater extent than they did in the past so that future prices will practically be managed by the authorities in control of credit independently of the supply of gold?—Well I can hardly imagine it myself.

13557 You do not expect that to happen?—No, I think the world is going back to gold as the basis of economic factors generally.

13558 But a larger volume of credit may be built up in the future?—On a given amount of gold.

13559 Quite so and that amount of credit may be varied at will by the authorities creating the credit?—Yes but they will still be subject to certain restrictions will not they as in the past?

13560 But will they be subject to the same restrictions?—Not to the same restrictions. The movement is all in the direction of increasing the efficiency of gold and increasing the amount of money that you can have upon a given amount of gold.

13561 My point is not that gold will be more efficient, but that the authorities controlling credit will have a very much wider margin to work on so that gold will not be the same dominant factor that it has been in the past. That is the point that was put to us—I can only imagine gold as still being the basis but the superstructure may be bigger.

13562 And more variable?—Possibly and more variable.

13563 So that you will not in future be able to correlate prices so closely to the amount of gold money available because you will have the other variable factor of the credit structure?—Yes not so closely. Still I think that from gold money alone you will still be able to see the curve of the other factors.

13564 So that you expect this curve will more or less continue to correspond with the gold curve but at a higher level?—Yes for instance, this line I give for prices of commodities owing to the changed basis of credit and money would not come down so much it might even run along horizontally.

13565 At a permanently higher level?—Yes.

13566 Turning to your estimate of the effect of the proposal to sell off silver from India which is shown in the table in paragraph 50 you show that in order to absorb the surplus supplies of silver the demand from India for private imports and from China and industrial arts will have to be increased by 33 per cent?—Yes.

13567 If one followed that out mathematically it would mean a reduction of the price of silver by about 27½ per cent?—From 35d to 25d.

13568 Assuming as you do, that these countries would only spend the same sum and get 33 per cent more silver for it, that would mean I think, a reduction of about 27½ per cent in the price of silver?—Yes.

13569 Which would reduce your assumed price of 35d per fine ounce to?—To 25½d. I mentioned that somewhere.

13570 The increased demand would hardly operate at once?—No.

13571 The extra 33 per cent would be absorbed in the course of time but at the outset when you had got the extra 33 per cent of silver on the market you would expect a far larger drop in price than 27½ per cent, would you not?—Yes.

13572 At the outset you would expect a very much larger drop in price?—Yes.

13573 With the prospect of extra supplies continuing for ten years that depression would be likely to persist?—Naturally the psychological effect ought to be very considerable.

13574 I wanted to make that clear—I meant on "this would mean a profound change in the position and it could not be effected suddenly and must take time." The idea of suddenly putting on the market 70,000,000 ounces is something that is not possible to consider.

13575 Prices might go down to anything?—"The more quickly it were applied the wilder would be the variations in the price of silver and the effect on production."

13576 The Chairman asked you about the possibility of the future price of silver. It is a matter of material interest to India in fixing the future ratio of the rupee to gold. We have been

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told that with the rupee at 1s 4d, the melting point of silver would be at about 43d an ounce I think?—2 standard ounce

13577 I think so and at 1s 6d it would be 48d a standard ounce. It has been represented to us that for the future stability of the currency the ratio must be well above the melting point. I want to ask you whether you consider, taking all possibilities into consideration that the price of 43d would be a safe maximum to assume for the future price of silver and whether it would leave us with a sufficiently wide margin?—It is a very low maximum compared to the rest of the world. In this country our figure is 122d at the present time owing to the rather ill-considered action of two or three years ago. It used to be 66d. China, Russia and Japan have had very low rates but apart from that India's rate is very small compared with the rest of the world's already. 66d and 66d was the general run of the basis of coining.

13578 You are comparing with the rupee British silver coin which is practically small change?—Yes.

13579 It is not quite on the same footing as the rupee?—No, ours are much more token coins.

13580 The policy in India since the mints were closed has been to maintain a margin between the bullion value and the token value of the rupee but not to have such a large margin as can be maintained in the case of subsidiary coinage in England?—Yes.

13581 But we do require a margin and I wanted your views as to whether it is 4d rate equivalent to a melting point of 43d per standard ounce would provide a safe margin?—Well I cannot imagine silver going up to 43d. At the same time 43d is rather low as a safety margin. I cannot see at present any possibility of silver going up to 43d unless this demand for coinage becomes pronounced—by the filling up of the Continental vacuum.

13582 You have already indicated that that is a possibility which has to be considered?—Yes, that is a possibility. You know the estimators when they estimate the demand for silver and the supply, as a rule by my instance I have given in my paper almost always put the demand at considerably more than the supply.

13583 The estimates given before the last Currency Commission as to the future prices of silver were very far out?—At the last Currency Commission Professors Carpenter and Cullis stated that for a very considerable time to come the price of silver would not be less than 4s. to 5s 6d per ounce. You are well above 43d there.

13584 But that estimate has been rather falsified by events?—Yes.

13585 There may be a risk of going too far in the other direction—in estimating that silver will never rise above 43d an ounce?—It may be so.

13586 That is possible?—It may be. I do not know of any subject more difficult than silver to estimate upon.

13587 (Sir Henry Strakosch) Would you tell us the main sources of your figures?—Do you mean the figures contained in the table?

13588 Yes. In your statement first dealing with the gold and then with silver?—The main sources I think are given on the tables. The Indian figures are obtained from the Indian trade returns and turned into sterling not at the customary rate but at the actual exchange rate of the year. The China figures are obtained from the Chinese Imperial Maritime Customs Reports. The figures for Egypt are obtained from the usual official sources. For the industrial arts the figures are from 1880 to 1913 from the Bureau of the United States Mint. Since then the Bureau has only given incomplete fragmentary figures and I have had to estimate them myself since then. I use their figures as a basis and build up on them.

13589 And the output figures?—The output figures are nearly always those of the United States Mint—practically all. Where you get very much earlier figures you have to refer to Soetbeer

13590 These figures are official figures as one might call them. They are not of your own computation?—No except this that for the period—it is rather remote now—of round about 1870 I found the United States Mint figures for gold production were incomplete, and I had in that case to check them up and substitute my own. That only applies to those round about 1870, and it does not affect the figures in general. The total output of the world since 1873 is as given by the United States Mint and I generally speaking you may say all the gold output figures and all the silver output figures are those of the United States Mint, which is recognised as the best authority on that subject. They compile them as far as they can from official returns but sometimes they have to estimate.

13591 You tell us that the only way of augmenting the stock of gold money in the world would be either through an increase in production or through economy in the use of gold for both monetary and non-monetary purposes, and you told us that so far as you could see there was no immediate prospect of an increased gold supply from new production and that any new production would not come from alluvial deposits, but from ore deposits?—Yes.

13592 If a new important gold field were found how long do you think it would take before production would be started? What I have in mind is that in considering the currency question of India we have in particular to see what the course of events will be during say the next ten years, supposing that an important new gold field were found now, would you expect that the increased production would play an important part in the supply of gold money during the next ten years?—No. (One can perhaps illustrate it by Canada. In the Porcupine District in Canada they have had important new producers. They have exaggerated about the way in which the Canadian gold output was going up. Their claim is that mines that will beat those of the Rand and so on. If one takes the year 1915 the total production of Canada not merely of the Porcupine District but of the whole of Canada, was 3,000,000 ounces. Seven years later it was seven and a half million ounces. That is almost an outstanding case of increase in production through new discoveries. It took them seven years to add four and a half million pounds to the annual output. From the nature of the case when you get away from alluvial sources which sometimes bring in a very sudden effect and have to deal with hole mining as we have to-day with company mining and with working on a big scale and so on, it takes many, many years to develop a mine and to bring it to full production. As you know on the Rand when an open pit a new mine is available it is a matter of seven years between the putting up of the mine to develop the property and the winning of the first gold.

13593 So that we cannot expect any material increase in the supply of gold during the next ten years even if a new field were found?—I think not.

13594 Did I understand you to say that you had gained the impression that India had over-bought gold in recent years?—No, 1924 1925 only—in that particular year.

13595 How do you come to that conclusion? Is it because you are taking the trade figures and find that the balance available for import is deficient?—Yes. I am speaking subject to correction, but in the year ending March 1924, India took £50,000,000 of gold. In the following year it was probably £25,000,000, but the trade balance the amount out of which they might buy gold is far bigger in the second year than in the first year. It has gone up considerably. I do not know if anyone here knows the figures but the trade balance of India for the year ending March 1926 will be much bigger than for the year ending March 1925, yet the amount of gold they take is halved and the silver imports are at about the same level. It is largely from that that I assume that the

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Mr JOSEPH KITCHIN

[Continued]

1921 1925 import of gold was exceptional and was due to what I call over looking anticipating the demand too much or however you like to put it

13596 You were asked to explain whether gold which was brought out of hoards in India would very much change the conclusions to which you have come in this sense. If gold came out of the hoards and were to circulate as money in India would that in any way mitigate the position which you have pictured in your paper?—If it were to go into circulation or merely come into use as money?

13597 If it came into use as money?—Yes it would mitigate the position

13598 But would it if gold came into circulation in exchange for rupees or notes which are now circulating as money?—You mean in circulation in India?

13599 That is what I mean—I do not know that I can judge of that I can see your point. You mean the amount of money would not be changed it would simply change its form

13600 Perhaps I had better put it in another way. Supposing that gold came out of hoards and went into circulation in India and functioned as money replacing as it would have to other forms of money would that alter your conclusions? In other words would it have any effect upon commodity prices?—I do not think so

13601 It would not. Therefore if by any chance the hoards were to come out and were to circulate as money that would not change your picture at all?—I do not think so

13602 You were also asked the question why you had excluded from the stock of gold money all gold that had gone into India. Is it because from information you have it did not function as money?—Yes and because gold, so far as the outside world is concerned when it goes into India disappears. It disappears as far as the rest of the world is concerned completely. It has often been said that we dig up gold in South Africa in order that it may be buried in India. That is the practical effect of it

13603 Coming to silver if I understood you correctly you said that the price of silver is also influenced by the general level of commodity prices? Would you say that if the general level of commodity prices were to fall the fall due to the peculiar position of the silver market would be accentuated or taking the reverse, if commodity prices were to rise and there were special reasons for silver to depreciate silver would not rise commensurately with commodity prices?—Yes

13604 If circumstances arose such as have been described in the memorandum which you have before you that is if silver had to be sold and if owing to the scarcity of gold due possibly to a great absorption of gold in India for currency purposes commodity prices were to fall then the two combined factors I take it you would say would knock silver to a far lower level than if gold prices remained stationary?—Yes

13605 Would you agree that if a gold currency were introduced in India demanding a substantial amount of gold to stock the country with currency, and if at the same time silver had to be sold, the combined effect would probably be disastrous to the price of silver?—Yes you would have them both working in the same direction

13606 Then with reference to the question whether gold continues to be the dominant factor in the creation of credit some witnesses have told us that it may not be the dominant factor. Would you agree that so long as the important trading countries of the world are on a gold standard gold is bound to be the basis of credit in those countries?—I cannot imagine anything else

13607 So that the lesser demand might only be brought about by a greater measure of concentration of gold within the banking reserves of those countries?—Unless you could reduce the demand of others

13608 Unless you can reduce the demand in what respect?—For industrial arts or for China

13609 It is well known that during the last 25 years a great deal of economy has been effected in the use of gold for money purposes. The cheque system and the banking system have been developed. The system of paying by cheque has been introduced into most countries. That must have had its effect upon the movement of prices during the last 25 years must it not?—I do not quite follow. The development of the use of cheques means that less gold passes from hand to hand but it does not necessarily involve the use of less gold. You must have gold as a basis of all that cheque currency

13610 But it reduces the demand for gold as currency?—As currency

13611 So that if you substitute a cheque currency for a gold currency in circulation you would be achieving an economy?—Yes

13612 That economy has been achieved to some extent during the last 25 years?—Yes

13613 So that if that economy had not taken place your curve would run differently from what it does?—Yes

13614 (Sir Rajendranath Mookerjee) In your reply to Sir Henry you said that if any gold mines were discovered you could not expect any production for ten years. Is that just a guess or based on technical data?—I do not say necessarily for ten years. I was thinking of the land where most of the important mines are situated. No new producer on the Rand can come into production until a matter of five or eight years from the time when the property is first exploited and when the shaft is first sunk. It takes five to eight years to get to the stage of production and then the production starts on a smaller scale than the full scale intended. In other cases in cases like Canada you would have matters coming into production more quickly. On the Rand out gold in new mines likely to be worked in future is situated at a very great depth. In the case of Canada you may be able to work from the grass roots as they say—at a very small depth—but you would probably start on only a small scale and work gradually up to a bigger scale

13615 It would depend on the nature of the mine having regard to the scientific methods of mining employed?—Yes

13616 Is that the only reason why you say that you would not be able to get it within ten years?—First of all for it to take place within ten years you would have to discover it to-day. Supposing it were discovered not to-day but in five years' time it would hardly affect the ten years' period

13617 I am not talking of to-day in that sense. The question as you put it, is that if India introduces a gold currency new discoveries would not affect the gold production of the world for ten years in aid of a possible increased demand owing to India's going to a gold currency. If India goes to a gold currency then it will involve an increased demand but if there has been a discovery in the mean time of a large gold field it will operate according to you only in ten years' time. What I am putting to you is that that is all guess-work. You cannot conclude that from any arithmetical table or data or anything of the kind—it is all guess-work?—It is based upon a very considerable measure of probability

13618 Not on technical facts?—In estimating the future of course one cannot know. If you have any estimate of the future put before you you must weigh it and see whether it is a reasonable estimate. I do not pretend that my estimates are necessarily accurate

13619 In paragraph 29 of your memorandum you seem to imply that the rise and fall of commodity prices is essentially dependent upon the supply of gold?—Yes

13620 Are not there other factors such as famine good harvests earthquakes volume of production etc which have something to do with

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Mr. JEREMY BENTHAM

[Continued]

prices?—Yes, farmers would affect prices, but only annually—it would be only annual variation. I am not dealing with the ordinary trade cycle movements or annual variations, but with the trend—the fundamental movement—the long period movement not with the short movement affecting only a year or two.

13621 It is not only the price of gold which controls the price of commodities, but there are other factors entering into it—Yes, generally speaking, including commodities when economically and gradually reducing their prices in that way, but the fundamental movement, the trend of those prices is determined, I think, by the stock of gold in the world.

13622 (Sir Alexander Murray.) In compiling these very valuable statistics regarding silver, do your figures take into account the replenishment from the United States market of the Treasury Reserve of silver under the Pittman Act? As you are aware in 1914 they agreed to sell something like 20,000,000 dollars and as a matter of fact sold at least over 20,000,000 ozs. Then they had to replenish their reserves?—Yes, they have done so.

13623 When did they finish replenishing these reserves?—Last year, I think it was.

13624 How does the cessation of that special demand affect the position?—In 1921, 1922 and 1923 they were coming 10,000,000 to 20,000,000 ozs. (gross) a year and that was largely the Pittman silver.

13625 I just wondered if you knew whether they had actually ceased purchasing?—In 1924 they still continued 15,000,000 ozs. and that was still the Pittman silver. I am not quite certain if they have really ceased now, but they stopped purchasing—I am speaking in a subject to correction—I should say a year-and-a-half ago.

13626 May the cessation of these purchases not set free a lot of silver in future, and may that not have a depressing effect on the market? It is a very substantial quantity that they brought—over 20,000,000 ozs.—Yes, for a time they acquired the whole of the United States production of 20,000,000 ozs. a year.

13627 That must come on to the market now. If you set free Indian silver also with the additional American quantity coming on to the market that is a factor which will help to depress prices. I do not see that you make any reference in your statement to that?—No, I did not think it affected it. The figures of coinage which I gave before excluding India and China show that the amount of coinage in 1921 was 63,000,000 ozs., of which it happened that the whole of it was due to the United States. The rest of the world balanced. The United Kingdom turned out 16,000,000 ozs. of bullion, France 10,000,000 ozs. of bullion, and the rest of the world made up for what these two countries turned out so that the total of coinage was 63,000,000 ozs., and the United States portion of that total was also 63,000,000.

13628 You do not specially refer to that in the text of your memorandum?—No.

13629 You seem to have conveyed to the Chairman or to some other Member of the Commission that the future demand for coinage of silver would absorb a lot of silver, and probably act as a sort of set-off against the decline that otherwise might take place in prices, but it is not a fact that in recent years we have had an abnormal demand for the output of silver to replace those reserves of America?—Yes, but perhaps I might just refer to those figures a little bit further. If you take the year 1922 the world (excluding India and China) absorbed 1,000,000 ozs. for coinage of which the United States took 62,000,000. In 1923 the world absorbed 16,000,000 ozs. of which the United States took 49,000,000 ozs. Then in 1924 the United States largely went out of the mining business and the world absorbed 90,000,000 ozs. of which the United States absorbed 14,000,000 ozs. So that you see

although the United States went down, the world went up.

13630 Does it come in then rather freely, did they say?—Yes, 10,000,000 ozs. for three years. I think they have stopped now, but for three years to 1923 they had absorbed for 15,000,000 ozs. yearly. Then Germany came in, but any way was a great factor in 1924 with 21,000,000 ozs. and Russia came in with 12,000,000 ozs.

13631 You think the demand for silver coinage in future will be a set-off against cessation of the American demand for silver?—I think so.

13632 (Mr. Freeman.) You have drawn attention to what you consider to be the normal importations of gold in 1921 and in 1925 into India, and you express the opinion that from now onwards the figures may show a considerable decrease?—Well, I was trying to explain the fact that the imports in the current fiscal year were only half those in the previous fiscal year. I do not know whether it will continue but even £2,000,000 which I assume to be the total for the present fiscal year now ending, seems to me a little bit high for India.

13633 Perhaps I drew up a little statement before I came, comparing the import figures of the 1st January to 1st March 1925 as against the 1st January to 1st March of this year—it is a comparison for two months. It is comparing the first two months of this year up to the 1st March as against the corresponding period last year. Is that fair?—In as imports?

13634 Yes—But they have not got the figures.

13635 Yes, these are words. 1st January to 1st March 1925 London to India £3,000,000. Durban to India £2,000,000 a total of £5,000,000. In addition to that India bought heavily for silver from New York. The amount going into India from the U.S.A. during that quarter of 1925 amounted to £10,000,000 sterling so that that is a total of £15,000,000 sterling. The other figures we have got 1st January to 1st March 1924 London to India £1,000,000, Durban to India £3,000,000, that is only £4,000,000. Then they add a footnote: 'We have no figures for the same period in 1923—that is from America—but are of opinion that the total amount if anything is negligible.—That bears out what I said.

13636 Exactly—Have you got the figures for the current year?

13637 These are for the current year—Do you know for the whole year what they amount to?—That is only a quarter.

13638 We could not do that. I am only comparing them up to date for this year, just to show the progress which is going on now—I only think that your figures added to the previous nine months will show £24,000,000 for the year. Well, I have estimated £25,000,000.

13639 It just confirms your idea?—Yes.

13640 If it goes on at this rate, 1927 would show a very, very considerable reduction in Indian imports?—Yes. In the first quarter to March 1925 the importation was quite extraordinary.

13641 You stated also with regard to silver on your computation of the world's requirements you had included for India for coinage purposes, am I correct in assuming 30,000,000 ozs. per annum?—Yes for coinage.

13642 Then if we take to-day, we have got in India in the Currency Reserves roughly speaking 250,000,000 fine ozs. of silver. Even assuming that India does not sell any silver it is quite obvious she does not want to buy any, carrying a big stock like 250,000,000. Therefore your 30,000,000 would come out of your consumption estimated, would it not?—Possibly, but during the five years to 1924 25 the Government of India imported 3,000,000 ozs.—that is nothing—for coinage, but during the previous five years she imported 46,000,000 ozs.

13643 That was the Pittman silver?—That included the Pittman silver, but only part was Pittman's silver. Apart from Pittman's silver it was the biggest amount that India had ever taken.

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[Continued]

13644 That is quite right—We are in a time now when I take it, rupees are coming in and silver is piling up in Government reserves

13645 290,000,000 fine ounces are in our holding now—But why should not the tide turn again as it has turned before?

13646 Assuming we have got a stock of 290,000,000 fine ounces, it would hardly be conceivable to imagine that India would buy for many years for coinage purposes, even assuming that they sell none of their silver?—I am only thinking that taking the years since 1900 I think in half of those years, or nearly half, and sometimes for three or four years at a stretch, the Government bought no silver at all for coinage, but it bought very heavily in the intervening periods

13647 That was the war period?—No, even before the war I can only imagine the same thing happening again. Of course I may be wrong in that but I take all that into account. I see in the year 1899 the Government imported no silver at all nor in the year 1902, nor in the years 1908 to 1911

13648 There was no coinage then?—But from 1903 to 1907 they imported heavily, and it went up to 73,000,000 ounces

13649 That is when our local stock was reduced almost below normal?—What happened in the period 1903 to 1911? Was not silver piled up in that period?

13650 I have not got the figures for that but the point I was rather striving to arrive at was this. Assuming what is the fact, that we have got 290,000,000 ounces of fine silver in India to-day obviously if we do not sell any of that silver we are not going to have silver for coinage?—But some of it must still be in the reserves must not it?

13651 Yes but the necessity for coming further rupees is non-existent when you have 290,000,000 and you have 80 crores of rupees in the currency reserves not being used.—That is at the moment

13652 At the moment. Then I say the 30,000,000 ounces which you have estimated as being the consumption figure as representing India's requirements for coinage might certainly for many years come out of that—Possibly

13653 (Mr Preston) I am taking the ten year period—the average of ten years

13654 (Chairman) In reply to Sir Reginald Mant I think you agreed that it is not unreasonable to contemplate that there may be a somewhat bigger structure of credit built upon gold in the future than in the past. You point out that in the past there has been an economy of gold effected as shown by your table?—Yes

13655 That is brought out in reply to Sir Henry Strakosch nevertheless in spite of that economy there is thus remarkable correspondence between your line for gold money and the price index. What I want to be clear about is whether any weight was given to this consideration as to the possibility of increase of supply of bankers' money in relation to gold in making your estimate of the increase of gold required to keep pace with economy development?—For the first period I say that that increase was 31 per cent. and for the second period 29 per cent. Then from 1907 right away to the present time and onwards I have taken 27 per cent. I only assume a continuance of that rate based on the previous rate of drop. I have not made further allowances beyond that

13656 Have you made any allowance for the continuance of the drop in the future?—Only to that extent. I did assume increased economy in the use of gold without considering the post-war conditions

13657 You have not thought it necessary to reduce the figure of gold increase below 27 per cent in view of this factor?—As I pointed out in my statement, I am looking at this from the pre-war point of view. I point out that the changed condition of gold will introduce a more profound change and Professor Cassel himself emphasises that point. For instance gold in circulation before the war was a very important quantity. To-day it has practically ceased. Gold circulates actually in Mexico. It is supposed to circulate in the United States but I believe it does not. All that gold that is going out from circulation is a basis for credit. It was not a basis for credit before. That means an economy. Then if you reduce the backing for bank notes, and so on, you lead to a further economy, and you can build up a bigger super-structure on the same foundation but to what extent I do not know if anyone can judge

13658 The order of reduction you are dealing with is a reduction from 31 per cent to 27 per cent over this period in your table?—Yes

13659 It is not necessary to make an additional allowance for that. That is the order of reduction which one might perhaps, be inclined to make for the future?—The curves would be of the same character but they would change their slope

13660 Exactly?—The prices would not come down so rapidly. I only show on this chart what the position would have been if the war had not occurred and then I show what has occurred as a result of the war and the future lies between those two points—somewhere between the two points

13661 (Chairman) I think that concludes all we have to ask and I am very much obliged to you for your labours on our behalf. They are very greatly to our advantage

(The witness withdrew)

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[Continued]

similar in the case of a conservative country as India.

1364. The next question is really consequential upon your previous replies but just let me ask this to make the matter quite clear. Assuming that the £103,000,000 sterling of additional gold required for India might be substantially increased—and that is making an assumption which you have not made in your previous reply—by the withdrawal of more gold into active circulation than is allowed for in the estimates of the scheme (not that it might be more rapidly withdrawn but that the actual amount might exceed £103,000,000 sterling) what difference would that circumstance make to the consequences which you have just described?—The difference would lie in the degree of difficulty experienced in putting the measure into operation by acquiring the additional gold, in the various measures taken by other people to protect their stocks of gold and the consequent effects such as the contraction of credit to which that would give rise.

1365. In proportion the greater the amount the greater the difficulty?—Yes it would intensify it for India.

1366. The next is a general question to which you may or may not feel yourself able to give a reply. Can you express any opinion as to the desirability of the proposals of the scheme relating to gold in relation to the interests of India and particularly in view of the cost to India of providing a gold currency by the means proposed?—In my view the use of gold as a circulating medium for India would be of little benefit to the people. It does not appear to have any economic justification. Such arguments as I have heard used in its favour would appear to be based on some notion of national privilege or the belief in my judgment an ill-founded belief that the gold standard is in itself a sign of an advanced state of civilisation. Gold in circulation would not support exchange. Our experience in the past has demonstrated that in any crisis in India or at any time when want of confidence has been specially shown instead of currency coming out to support exchange the people have been disposed to hold on to what they have and to try and do as much more of it. Any gold that did get into circulation would be at the expense of the gold in the gold standard and paper currency reserves. In fact, there would be rather less than more gold available to restore the exchanges in the event of a crisis or general lack of confidence. I cannot speak about the cost. I have seen some estimates but it is difficult for an outsider to give an opinion as to their accuracy. But India would of course lose the profit on the exchange of rupees which would have taken place if gold had not been substituted.

1367. That is loss of future profits?—Yes a loss of future profits. Where the circulation of gold has been previously tried it always seems to have been at the expense of the notes. I do not believe it would do much to affect the undoubted economic evil of hoarding. The fact is the only remedy in any country I believe for gold hoarding is increased education and, as an ancillary measure, increased facilities for banking. Until these are supplied I do not think an extended gold circulation would offer any security or any utility corresponding to the waste involved in the substitution of a very costly for a comparatively cheap form of currency. In the normal position of India experience seems to confirm that the most suitable form of currency for all internal purposes is and I think must continue to be rupees and notes. For the discharge of external obligations what is required is not gold in circulation but gold in reserve as a means of effectively converting the internal currency on demand into an exportable surplus. Those are the general grounds on which I am opposed to the gold currency scheme.

1368. Turning from that topic in connection with the question of gold currency a doubt has been expressed regarding the real intention of the Currency

authorities in the United Kingdom concerning the ultimate policy in the matter of reverting to the pre-war practice of free convertibility of the British note into gold coin. Can you tell us what your opinion is about this as to whether the idea of having gold currency in England has been practically abandoned or not?—May I ask the Governor to answer that?

1369. Certainly. In connection with the question of gold currency Mr. Governor, a doubt has been expressed regarding the intentions so far as they can be judged of the Currency authorities of the United Kingdom with reference to the ultimate policy of reverting to the pre-war practice of free convertibility of the British note into gold coin. Will you be able to express an opinion as to whether the idea of reverting to gold currency in the matter of convertibility of the note may be said to have been practically abandoned or not?—(Mr. Montagu Norman.) That is circulation of coin?

1370. Convertibility of note into gold coin circulation?—Well speaking for myself I hope that the time may arrive both in this country and in India when circulation of gold coin may again be resumed. So far as this country is concerned I think it is very remote. I rather suspect that so far as India is concerned it is equally remote. I do not expect to see it in this country myself.

1371. You mean in your life-time?—I mean in my life-time but I like to cherish the hope that it will come back again and will be a sign of that prosperity which I trust we may reach again. But with what financially Sir Charles has said I agree entirely and that is that what we need at the present time—all of us in all countries—is our gold in reserve and not in circulation. I think Sir Charles did indicate that.

1372. As regards British policy you seem to trust to the larger hope?—I intend to work for that but I do not expect to see it in my time.

1373. Would you expect to see it in this country so long as there was any possibility that the restoration of the right of convertibility of notes into gold might result in any substantial demand for gold?—Yes I should.

1374. What period would you contemplate in which it would be possible to resume the convertibility of notes into gold in this country and under what conditions?—Well this is dreaming is not it? We are dreaming now.

1375. If we are only dealing with dreams I think it is hardly worth while to pursue it further?—That is really it but I think the time will only come when our international position becomes so strong and our exchange rates so high and so satisfactory to this country that gold will come in greater amounts than we need into the Bank reserves and we shall then be glad to use part of that redundant gold for circulation.

1376. On another general question can you assist the Commission with any evidence as to the probable future relation between the world's demand for gold and its supply assuming that Indian conditions remain unchanged?—(Sir Charles Adams.) As regards the supply of gold I have no special knowledge but I have seen the figures supplied by Mr. Kitchen and others. The outlook apart from new discoveries and new scientific methods of mining appears to be for a general decline in the production of gold. As regards demand I think there will be an increased competition for gold as a backing for the note issues of a reconstructed Europe. Against that there must be set certain economies in the use of gold—possibly a change in the monetary habits of the people. The co-operation of the Central Banks of Europe, which has already begun, may be developed in such a way as to effect considerable economies in the international use of gold. These considerations may be taken as a set-off against the decreased production of gold and the increased demand. But of course those economies are in my view less certain than the increase in demand and the decrease in supply and

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[Continued]

there is no means of making even an approximate estimate of their quantitative value. My statement is merely an indication of the opposing tendencies likely to be at work in the future.

13,637 Following upon that I would ask you a question which you specially and peculiarly are entitled to answer. Assuming under this outlined scheme which we have been considering a blow to the silver market resulting in a reduced status and value of silver in your opinion what effect if any would that have in promoting a demand for gold in China in replacement of silver as a store of value and a means of circulation?—For a long time—for more than a generation—the Chinese have been profoundly concerned with the instability of silver as a basis of credit and as a store of value. Their fears have been increased by their isolation. China is now the only great silver using country left. She is surrounded by a circle of countries all of which are either on the gold standard or the gold exchange standard. The Chinese also feel strongly although I think wrongly that in some way or other national prestige is mixed up with this question. They would like very much and have for a long time been anxious to find some means of adopting gold or some form of gold exchange standard as the basis of their currency. I believe the change would have been made but for the expense. The catastrophic fall in the price of silver in terms of gold which might take place on the bare announcement that the world's production of silver for two or three years was to be for sale, would tend to stimulate the movement in favour of a change of currency in China. They would do their best to devise means for securing the amount of gold sufficient to serve as a basis for instituting some form of gold exchange standard. That would in turn increase the affect already produced on silver by the Indian announcement, both by a reduction in demand for China and, to some extent, by an increased supply of silver drawn from hoards.

13,638 On a more question on the gold market, which is a question rather more in detail. Can you give an estimate of the annual increment to the stock of gold for monetary purposes which is needed to keep pace with the economic progress of (a) Great Britain, and (b) the rest of the world?—I have no special knowledge on this subject. I have always accepted what I think is generally accepted, that the increase required is about 3 per cent per annum. I think it is Mr. Hitchen's estimate. Mr. Montagu Norman and Professor Cassels, too. (Sir Charles Addis) His is 3 per cent also I think.

13,639 Can you express any opinion as to how many years it will take for the stock of gold for monetary purposes now held by the United States of America and at present regarded as redundant, to be absorbed in this manner?—I should say from what I have seen in the Press generally that the extent of the period is probably very much exaggerated, and that there is also gross exaggeration in the amount which it is supposed America could prudently afford to lose. You probably have the figures for last year. There was a surplus of exports of gold amounting, I think, to 150,000,000 dollars. You have those figures. (Sir Henry) I propose.

13,700 Sir Henry Strachey. I have not got the figures. (Mr. Montagu Norman) I think it was over 200,000,000 dollars. (Sir Charles Addis) That would strengthen the argument. Say it was from 150,000,000 to 200,000,000 dollars. At that rate it would not be long before the total was reduced by half. In my opinion I give it to you for what it is worth—it is doubtful if America could afford to part with much more. On that hypothesis the answer to your question would be ten years.

13,701 (Chairman) Taking into account the surplus of exports and the internal absorption of gold?—Yes.

13,702 We now turn to the proposals of the scheme under consideration relating to silver. Can you assist the Commission with any evidence as to the probable

future relation between the world's demand for silver and its supply assuming Indian conditions to remain unchanged?—The world production of silver has been curiously unequal of late years owing to the war. During the last three years it looks—and I do not think one can say more than that—as if it had reached its peak, as if we might look forward now to a gradual decline in production. Failing the discovery of new mines of silver or of copper or of lead of which silver is an important by-product, the supply of silver in future is more likely to diminish than to increase. On the other hand I think that the increasing use of notes not only in Europe but in the Far East, and the resort to nickel and the base metals as an alloy for subsidiary coinage point to a diminution in the demand for silver in future. I think I ought to add to that a piece of information which I only got this morning. It is reported by the Vice-President of the Bank of China Mr. Chang Hsiangan, that up to three years ago the mints in China were coming about 200 millions of dollars, or about £6,000,000 of silver, per annum. If that statement is correct it would imply that the use of silver by China is greater than is generally supposed. Mr. Preston who has special knowledge of that point, might perhaps be able to give an opinion. For myself I was very much struck with the magnitude of this amount.

13,703 I gather from your reply as regards the demand for silver for monetary purposes, that you expect to see rather a decrease in demand because of the use of other metals for subsidiary coinage, than any increase in the subsequent demand?—With the possible exception of China.

13,704 With reference to the actual proposals before us, assuming that the proposals involve the sale over a period of 10 years of an amount of silver equal to about three times the present annual world production, what in your opinion would be the effect of that on the silver market?—I cannot give a quantitative answer to that question, qualitatively it would be catastrophic.

13,705 Then what effect would the proposals have on the markets in copper and other base metals?—It is estimated by the United States Mint Master that of the total production of silver about 90 per cent is produced from the precious metal ores and about 10 per cent from the base metal ores. Some copper mines, it is said, are only kept going by the sale of extracted silver. The effect, therefore, upon the market in copper and other base metals would be to lower the production and raise the prices of those metals until the demand and supply were equated at a new composite price level, copper rising and silver falling, where the new point of price equilibrium would come to rest, I do not know and have no means of estimating. It need to be said, and to some extent calculations were based on the alleged fact that silver could be produced at a cost of roughly 50 gold cents an ounce. I presume that the cost is higher now and that the mines on the margin would be the sooner thrown out of action. Those considerations would lead one to believe that the fall in silver would be severe, and that it would be accompanied by a rise in the price of copper and other base metals, but one cannot say how much.

13,706 There is another branch of the matter on which your experience will help and that is, what effect would a fall in the price of silver have upon its volume of production in view of the intimate connection between the production of silver and certain base metals?—Copper and lead mines above the margin would perforce go on producing silver. They could not help themselves. It is to be assumed that the growing demand for electrical copper would raise the price of copper and counteract to some extent the reduction in silver supply from copper mines formerly below the margin. What we must look for therefore would be a great decrease in the production of silver from the silver mines and a comparatively reduced production from the copper and lead mines.

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United States. Silver in the United States is not only a by-product as Sir Charles was saying, in copper, tin, zinc, lead and so forth and is in that respect extremely important and valuable but it is also a product *per se* and carries with it as large a political backing. I should think as any question in the United States. Therefore I do not believe you can touch silver in the United States without at once raising not only a financial or economic question, but a political question. I think the position would therefore be extremely difficult. Now, what would happen? I believe it would be impossible for those reasons—for the silver reason—to borrow or to open such credits in the United States for the purpose of carrying out this operation. If that were so it would naturally make a difficult position for us here as to what policy we were in pursuit and it would be very likely—by “it” I mean the raising of these credits for Indian use for this particular operation—to raise awkward questions between us here and our friends in America, if not between the administration there and the Government here. Whether it would do the latter I do not know, but that it would raise a difficult position between our friends of the Federal Bank there and the Bank of England here, I am very certain—and that with every wish in the world to accommodate and to do what we can to help. The other point on which I should like to say a word is that Europe and other countries, all of whom suffered to a greater or less extent during the war, are now gradually trying to climb back, not only to stability, but first of all to a gold exchange standard, and then eventually to a gold standard. They are all trying to do that by a method which I believe to be fundamentally sound—and to be recommended to any others who are considering this question. That is, first of all to adopt a gold exchange standard with little or no gold and then to look to it over the years to replace gradually the gold exchange, the valuta security, by gold security. That is proceeding now in several countries in Europe and in several countries outside Europe—or is going to proceed. It requires for its fulfilment that there should be a certain amount of as it were surplus gold each year and the pace with which this plan has been carried out during the last year or two—the nine period during which it has been proceeding—has necessarily been somewhat retarded by the fact that there has been little surplus gold available. The reason why there has been little gold available on the whole is that of the supplies of fresh gold the greater part have gone to India. Therefore, already, on this basis the stabilisation of Europe and in some extent including this country—but the stabilisation of Europe, a very important thing for all of us and not alone for India—is dependent on having over a series of years a certain supply of gold by which those various countries can gradually substitute gold for valuta—gradually, possibly transfer gold exchange standard into gold standard to the extent of having their note circulation covered more and more by gold and less and less by valuta, never going back, as I expect, absolutely to a gold circulation, but nevertheless over the years each one gradually getting a higher proportion of gold against their note issue. That, I believe, is the way in which Europe and countries beyond Europe, may eventually solve the questions of stability, of security of note issues of prices, and of co-operation one with another—all moving forward together. Many countries are developing in that direction. No one country, I think has the power to run ahead to any great extent of the others. I believe the advantage of the man, as well as the advantage of each one, is that this progress should be gradual and united. These are the general views I would like to put before you. They point to the extreme difficulty if not to the impossibility, of carrying through the proposals which have been put before this body—for reasons which I have tried to point out. They are proposals which

I think are very inadvisable from the point of view of the progress which the world is making towards stability at the present time.

13741 I take it that the picture which you have painted for us is this. If all the principal countries kept in step in the march towards a sufficiency of gold reserves to attain the object of internal convertibility of notes for gold, then they may all hope to arrive at that point at some future period but if one principal country upsets, as it were the appearance then nobody will get them at any rate the period will be indefinitely postponed. That is a true impression to be gained from your reply?—That is a perfectly true impression, except that I alluded to the difficulty if not impossibility of obtaining the assistance which is necessary for this one particular country to make this particular move now.

13742 In your general dealing with the matter which you have so kindly given us, I think you have really replied to the particular questions which I had reserved to myself to ask you, and I do not think I can with any advantage put them to you now in detail. It would only be a matter of repeating in substance what you have already told us.—I am anxious to answer any questions you may put to me.

13743 For instance, if I were to ask, would a proposal by the Government of India to obtain such credits in London for the purpose of carrying out the scheme referred to (for putting gold into circulation in India concurrently with the sale of silver) be likely to encounter any such difficulties as would make it undesirable to contemplate that step, you have already given us the answer?—I think the difficulties would be extreme.

13744 Or again, assuming that the credit of £93 million would not be required for a longer period than five years, what would be the cost to India of embarking on such a credit scheme? (1) if the credit is not required to be actually drawn on, (2) if the credit is only partially drawn on in the first place you tell us it would be very difficult to find such credits. I do not know whether you would be prepared to express any opinion as to the cost?—No. I could not express an opinion as to that but I say that it would be extremely difficult the credit being connected, as it must be at this time with the silver proposals before you.

13745 (Chairman) I have some questions which I should like to ask you if I may about the constitution of a Central Bank, but perhaps at this point on this first topic, I might ask you to deal with any supplementary questions which some of my colleagues may like to ask.

13746 (Mr. Preston.) If I were to say that with regard to the proposition which you have been dealing with—the written one—there is another body of opinion in India—a large and an influential body—which has a totally different opinion as to what ought really to happen in India with regard to the currency system, a body of opinion which perhaps might call at this moment an inarticulate body in so far as there are no representations of what their views are before you but if I were to assure you that those ideas are totally different from those which have been represented to you in that written document would that cause you some sense of comfort?—I do not think I quite catch your point. You say there is a great body of opinion in India—

13747 Other than that which is represented by that document and whose views are other than those represented in that document but which is a very influential body would that cause you some feeling of comfort?—I should like to have your question more definitely put. You mean that this body of opinion of which you speak does not favour a gold circulation?

13748 That is rather a detail of the whole. This body of which I speak does not favour the programme as written and as represented to you and as has been dealt with this morning.—What is it you are asking



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me, Mr Preston, because I do not think I know exactly?

13749 May I enlarge it? There is another body which considers the older system which used to be in force in India as having rendered a great service to the country. They recognise that it had a weakness, but they attribute that weakness not to any fault of the system but rather to mismanagement of the system, and in expressing their opinions now as to what should be done with regard to a future currency system they desire to have brought into force in India what they term an improvement on the old system, which would really mean that what we should have would be a simple gold standard, that is, a free inflow of gold and a free outflow of gold but that, as regards the question of currency, that should not be attempted until a more remote date, when a sufficiency of gold could be accumulated without disturbing world prices. Would that meet with your approval?—I should be very glad to hear that anybody agreed with me. It is always comforting.

13750 Is that following your line of thought?—What I have said applies to this particular scheme. I have not elaborated any particular alternative scheme.

13751 I thought it only right that I should state that there is another school of thought not represented in that scheme, and to ascertain your opinion as to that other school of thought.—What I did not approve of was the question of a gold circulation. That is the point of this scheme. Any scheme, short of that, which might be altered or amended in years to come but which at the present time allowed people to acquire gold as they acquired any other commodity, I should think would be satisfactory.

13752 That is to say, a simple gold standard?—I do not know what a simple gold standard is.

13753 A free and unrestricted inflow of gold into India which we had—and have now.

13754 Yes—and a free and unrestricted outflow of gold which in old days was optional. What we merely desire now is to compel an obligation on the part of the authorities.—I prefer the option.

13755 You still prefer the option?—I think so. 13756 That is for the export.—What I understand is that it is a market in which gold is a free commodity. Is not that what you are speaking of?

13757 Under the old system what happened was that the gold went in at the upper gold point. What is asked for now is that it shall be an obligation on the part of the currency authority to allow gold to go out when exchange reaches the export gold point.—which, I think, really represents the views which you have expressed this morning?—Yes I think it does but it is only fair to say this. I have been addressing myself to a particular scheme. I have not endeavoured to supply any alternative.

13758 Quite so.—But I should be disposed, after listening to you now, to think that a market in which gold as a commodity was free to come and go, and it does at the present time, would be a satisfactory basis on which to continue, at any rate for a time. (Sir Charles Addis.) May I interpose a question? Does Mr Preston mean that the silver rupee should be convertible into gold or not?

13759 For export purposes to maintain exchange—not for internal purposes.—Could anyone go to the Government and demand sovereigns? Could anyone present rupee notes or silver rupees to the Government of India and demand an equivalent quantity of gold without limit?

13760 For export only, or for gold funds.—That is your proposal?

13761 Yes in maintenance of the exchange.—Mr Montagu Norman. You differentiate between gold for export and gold for valata.

13762 Not for internal purposes—not at present?—Do you mean that there should be—

13763 Actual gold or gold funds?—Mr valata.

13764 Yes.—Then I agree with you.

13765 Now with regard to the silver position, Sir Charles, I say that the scheme as suggested is unwise and unjustifiable, and you yourself have told us that you consider it a daily blow to silver. Will you allow us to present the Indian silver position to you in a very few words?—I was speaking internationally, of course.

13766 Quite so. According to the evidence which I saw before us, the total amount of silver in circulation amounts to about 20 crores of rupees. Taking the population in India as 200,000,000, and only allowing the very low figure of 6 rupees per head for circulation it would practically mean that we would be reduced to an item of 80 crores of rupees. Those 80 crores exist to-day in the Government Treasury chest. According to further evidence which we have received, it is estimated that a fair reserve for India's purposes to-day is about 40 crores. Accepting that that would leave us with 40 crores still to deal with in the currency reserve. We have further evidence that the annual consumption is round about 6 crores per annum.—Consumption?

13767 Annual absorption? If the annual absorption is 6 crores and we have 40 crores left, we would only then have in eight or nine years' reserve before the Indian authorities would have to be contemplating further purchases of silver. If the position is such as I have presented it to you, would that strengthen you in the views which you have expressed?—At the proposed action to be taken is most unjustifiable?—I do not understand what you have said, Mr Preston. I think I would have to write the figures down before I could understand them.

13768 May I go over them again, if I am not troubling you?—Allow me to say this. I was addressing myself to the external position. It is from that point of view that there would be 600 million ounces potentially for sale, and 100 million sterling potentially to be borrowed. You are telling me the internal position are you not?

13769 Yes (Sir Charles Addis.) Is your point that the amount of silver which would have to be sold—available for sale—is greater or less than indicated in the figures?

13770 Very much less—so much less that the position really does not justify even the consideration of a sale of silver. Will you let me go over the figures again?—(Mr Montagu Norman.) Is it point is that the figures on which I have based the answers which I have given to the Chairman are entirely wrong?

13771 (Mr Preston.) I think they are from a wrong angle entirely.

13772 (Chairman.) Mr Preston, would you put it in this way so as to enable the Governor to answer? Would you ask him whether it would express any opinion on the point that the Indian position in respect to silver is such as to make it prudent or justifiable to contemplate the sales of silver which are proposed in this scheme?

13773 (Mr Preston.) Certainly.

13774 (Chairman.) The point is whether you are able to express an opinion as to whether the Indian position as regards silver, including in particular the demand for silver rupees and the formal increase of currency, is such as to make it prudent or justifiable to contemplate at the present time such sales of silver as those which are proposed in this scheme?—I have no idea about it.

13775 (Mr Preston.) May I go over these figures again and try to make them clear as representing what really appears to be according to the evidence we have had the position in India to-day. First of all the total outstanding rupees in circulation are estimated to be 20 crores. If we allow 6 rupees per head of the population for circulation that would take away 120 crores. The balance then left is to be practically found in the reserves in the currency chest to-day which amounts to nearly 80 crores. We have that in our currency reserve—80 crores of rupees. We have had it in evidence that the working reserves in India should be 40 crores of rupees. The deduction

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of 40 from the 80 leaves us with 40 crores. We have also had it in evidence that the absorption of rupees is 9 crores of rupees per annum. With a redundancy of only 40 crores and with an average annual absorption of 9 crores that does not mean five years requirements—(Sir Charles Adams) Have you taken account of the silver in hoards, which might be with drawn?

13,775 That could not come out. There are no mints. You could not coin your rupees. That would not affect the question. We are looking at what is the actual silver in circulation?—You suppose everything remains as it is?

13,776 Yes.—Then I agree. That is quite apart from the scheme, is it not?

13,777 Yes, quite apart from the scheme.—My only criticism would be that if the scheme is not adopted, then an amount of 40 crores in your reserve would not be sufficient. But those hypothetical questions are quite apart from the proposed scheme.

13,778 (Mr Preston) Yes, they are entirely apart from what you have been dealing with.

13,779 (Chairman) Mr Preston is really putting a continuation of the existing state of affairs.

13,780 (Sir Alexander Murray) Sir Charles Adams, in your evidence you have said that unless there was any great urgency you did not see any necessity for fixing a ratio of exchange, but it is not a fact that the 2s ratio which is now on the Statute book is preventing the free in flow and out-flow of gold for the purpose of inflation and deflation of currency? Is it not desirable that that 2s ratio should be removed as quickly as possible?—(Sir Charles Adams) That is on the assumption that a gold currency is desirable. Your argument is that the 2s ratio on the Statute book is preventing the free in flow of gold for currency purposes.

13,781 Yes.—just as in pre-war days when you brought in a sovereign and tendered it you got rupees or notes against it. Is not the fact that we have not got a workable rate of exchange to-day, the same as we had in pre-war days, a factor which ought to be taken into account in suggesting that we should continue going on as we are?—Not unless you rely upon the advantage of gold as currency—an advantage which I do not admit. As I understand it at present, there is nothing whatever to prevent the free in flow of gold at the current rates of exchange.

13,782 As a commodity?—And its purchase in the market. The only difference is that in your supposition it would be sold by the Government. Is there any real difference? What difference does it make if I, as a native, can go into the market and purchase so much gold from a bullion merchant at the rate of 1s 6d, or if I am able to go to the Mint and do so?

13,783 It is the difference between what the conditions are now and what they were in pre-war days.—I submit that the difference is of no practical importance.

13,784 Therefore it is immaterial to your opinion whether the 2s ratio should remain in the Statute book or not?—It is not desirable that it should remain a moment longer than is necessary, but it would be very undesirable to remove it prematurely and at the cost of too great a sacrifice.

13,785 As regards the question of internal prices, I wonder what greater relation of internal prices to each other as between the different countries is required than what is the case at present. I have in my hand the index numbers of wholesale prices in India and in foreign countries, compiled by the Labour Office in Bombay. Will you take a note of these, Sir Charles? I will take the figures for October-November of last year. They are on the index number of wholesale prices at 153 in Bombay, at 159 in China, at 155 in the United Kingdom, at 153 in the Netherlands, at 148 in Sweden, at 157 in Canada and at 153 in the United States. Does not that point to a suitable time for stabilising Indian exchange in

relation to the other gold standard countries?—It does if you are satisfied that the prices in the other countries have reached the point of equilibrium. It is that which I doubted, and the reasons I gave for doubting it were in the first place that some of the principal countries have not yet decided at what rate they are going to stabilise their exchanges.

13,786 I am giving you countries which have stabilised, namely, the United States, Canada, which is practically on a gold standard, Sweden which is on a gold standard, Norway, which is on a gold standard, and the Netherlands, which is on a gold standard. I have given you all those countries. Their prices bear a strict relation to the Indian prices. Do not they point to this being a suitable time for stabilising Indian internal prices in relation to the prices ruling in other gold standard countries?—I think, with submission you have not quite got the point of the argument. The argument is that those countries are prepared to meet in concert, within a reasonable time, under the resolutions passed at the general conference for the purpose of stabilising the prices of Europe. To a certain extent these may be determined, or at least may be affected by the rates at which the countries, which have not yet stabilised, fix their exchanges.—Italy, France and Belgium, I leave Russia out of account for the moment, important though she is. The argument merely amounted to this—that it would probably be more prudent to wait until that point had been decided before fixing the relation of your Indian prices. It does not go further than that. If you think that those prices are stabilised already, and that they are not likely to be affected then, so far, my argument would be weak and I am not prepared to say that I think they will be altered, I say there is a risk of it. Unless there are very strong compensating advantages I see no great advantage in running that risk. I do not put it higher than that.

13,787 I assume that at this Conference you propose having India represented?—Yes.

13,788 Is there any reason to believe that the prices will vary greatly even if Belgium, Italy and France are brought into this Conference, and they stabilise round about where prices are at now? Would the prices be any different in the gold standard countries?—I do not quite catch your question.

13,789 Supposing you have the Conference this year, and supposing you tell Belgium to stabilise at 120, and she could do it and supposing you tell France to stabilise round about 140, is it likely that that is going to vary prices very much in the gold standard countries from what they are at the present time?—A good deal will depend on the wisdom with which it is done.

13,790 But in the majority of these countries it is already done. Only one or two countries are left to do it. You suggest that India, because these one or two countries have not come in, must still stay out?—I think perhaps the difference between us is one of degree. If you say that Italy, France, Belgium and Russia are of no great account, then no doubt my argument is a weak one. If you think they are of some importance.—

13,791 Do these particular countries count more in the eyes of India than the countries who have already got on to the gold standard, and with whose internal prices she is more or less in relation now?—That would be determined a good deal by a consideration as to how far the trade is European and how far it is American.

13,792 You may take it from me that India's trade is largely with the countries who have already stabilised. If so, will you admit that it would be advisable that India should stabilise as early as possible?—I have never denied that she should stabilise as early as possible. My contention is that she should wait for the proper moment to do so. The difference between us seems to be as to whether that proper moment has arrived or not. There is a good deal to be said for both sides, but I think the

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balance hangs rather on the side of waiting. Obviously in your opinion the balance weighs the other way.

13,793 I am not venturing to make any suggestion—I infer from your questions that you are of the opinion that it is not necessary to wait, and it is from that, that I differ.

13,794 I gather from what Mr. Montagu Norman said that the ultimate aim of all the countries is to get back to a gold standard (*Mr. Montagu Norman*) Yes.

13,795 India in pre-war days was on the gold exchange standard, and India now thinks, rightly or wrongly, that she can go back on to a gold standard?—Are you speaking of a gold circulation when you say "a gold standard"?

13,796 I was using your very words—When I was talking about the object of this Memorandum, it was a gold circulation. When I was talking about my discussions with various European countries and others, I intended by "a gold standard" to imply that the security behind their note issues would gradually change from bills of exchange and valuta to gold.

13,797 India could have a gold standard the same as you have at the moment, without having gold currency actually in circulation?—In India?

13,798 Yes—That is to say, that the security for your note issues might be considerably in gold?

13,799 Yes—That I should hope would happen.

13,800 In view of the fact that the Central Banks of Europe since the war have increased their gold reserves by nearly 200 millions, and that the banks in the United States of America have increased theirs by many more millions, is it not a natural desire on the part of India to increase her gold standard reserves in gold instead of in securities?—I did not understand that was the question before me. I understood the question before me was whether India should have a gold circulation, and you put a further question.

13,801 The position is complicated, if I may say so, by the fact that you have had a particular scheme in front of you. In dealing with that particular scheme you said in your evidence that the ultimate aim of all the countries was to get off the gold exchange standard and get on to the gold standard as soon as possible?—Oh a series of years.

13,802 Then you explained what you meant by a gold standard—namely, that there should be gold as a backing to the notes instead of securities. I say that, having seen during recent years nearly 200 millions increase in the gold reserves in Europe and probably 500 or 600 millions increase in the reserves of the United States of America, is it not a natural desire on the part of India that some scheme should be devised whereby India should hold gold in reserve also?—Other than the scheme which I have had before me?

13,803 Yes—I should like very much to see—though I have not considered it—a gradual replacement of securities by gold behind the circulation. Does that answer your question?

13,804 It does (*Sir Charles Addis*) I think it is a natural desire, but I do not think it is a wise one. I do not myself see that securities held in this country are in view of the purpose for which they are required a less advantageous security for India than the metal itself (*Mr. Montagu Norman*) I think it is a natural desire. I think it is rather the movement of the day. Everybody is doing it, and we must recognise it as such and for my own part I do.

13,805 As a matter of fact while it is the present desire of the Continental Central banks to have gold chiefly in reserve as backing did not Holland quite recently find it was getting so much gold that it tried to put it into circulation again and did not Switzerland find the same thing?—Not Switzerland.

Holland is in a peculiar position, and I think may be classed more with the United States than any other country in the world. My recollection is that last autumn Holland became very rich owing to a certain commodity which she received from the Far East, and she at that time got so much gold in payment that she did not know what to do with part of it, and there was a tendency for some of it to go into circulation—a very small amount, it did not amount to anything, and it was purely experimental, I think.

13,806 Is there very much difference between Holland getting paid for her commodities, to which you refer, in gold, and desiring to put it into currency, and India getting paid for her commodities in gold and also desiring to put it into currency?—Yes, I think there is a great deal of difference, if I may say so. Holland was, as it were, sitting quiet and receiving this amount, mainly on Java account probably, and was not at all anxious to put gold into circulation. She adopted purely a passive attitude acting on behalf of her Far Eastern friends. There was no question of silver or of borrowing. She was paying off everything she could. That is where the great difference between India and Holland seems to me to be in this respect. In order to carry this operation through India would need to borrow X millions of gold, and to dispose of X ounces of silver, and for that purpose she would require the co-operation of certainly two countries—the United States and Great Britain.

13,807 I agree, but if some scheme could be devised which would avoid the selling of all this silver, to which so strong an exception has been taken, and if some scheme could be devised which would avoid the necessity for buying at home 100 millions sterling of gold and if a scheme could be devised whereby a limited amount of currency might go into circulation as has been the case in Holland, then you would be prepared to consider that scheme more favourably than the particular scheme which is in front of you?—I certainly should, but I do not think I could ever consider favourable the circulation part of it which I believe to be a mistake at present, but with the remainder of it, although hypothetically stated I should agree.

13,808 (*Sir Mancey Daddaboy*) Three important arguments emerge from your very valuable evidence to-day. The first is that the position and policy of the Bank will have to be altered in case India goes in for a gold standard?—You mean the policy of the Bank of England?

13,809 Yes. The second is that there will be economic disturbances in silver producing countries and also in Western European countries, and the third is the practical impossibility of finding credits for the purchase of this huge amount of gold to supply India's want. I think I have correctly summarised your main arguments in connection with this matter. I will deal with the last point first, or I think further light is necessary on it. In the matter of credits you have stated that the two lending countries are Great Britain and the United States and that it would be impossible to float any loans without the good will and co-operation of these countries. You think it is not in their personal interests to extend any help, and although personally you are in great sympathy with India's project you find the obstacles so insuperable that you advise that India should not go in for a gold currency, but a gold standard without gold currency. In considering this question of credits have you taken into consideration the point that these credits will not come in at the initial stage of the scheme but will come in at a later stage?—I understand that a part of the credits are likely to be needed early. I believe that the whole operation of the scheme before me will come more quickly than is expected.

13,810 I think it will come perhaps somewhat more quickly than is expected, but in the first instance,

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in perfecting, and maturing and organising the scheme India will fall back on its reserves both in the gold standard and in the paper currency and also on the large private reserves which she has in the shape of gold bullion. If you take that point into consideration do you think the impediment is so great as you have stated?—I still think that to raise credits in the early stages as is suggested in this scheme is a very serious drawback if not an obstacle to the scheme for the reasons I have given. The fact that the whole of the amount is not needed at the beginning but that part of it may be deferred until a later stage, does not affect the argument, for the reason you have stated yourself namely, that the whole thing would be likely to come more quickly than is expected.

13821 I did not say that. The scheme is to be spread over a period of ten years. The financial part of the Government of India's scheme is to be spread over a period of ten years. If in the initial stages—for the first three years—we fall back on our own gold reserves, and also on the large private reserves of bullion which are collected in India and which must come out, is there any serious impediment then?—Yes, I think there is a serious impediment, if your scheme requires that credits should be raised.

13822 If you modify the scheme by stating that credits will not be raised for the first three or four years will you still object?—Yes, I would.

13823 As to the credits, you say it would be difficult to get the co-operation of the United States, and also that it would be difficult to get loans in this country. Will you tell me the figures for the amounts of foreign loans which have been raised in England year by year during the last five years—loans raised for the Dominions and other parts of the Empire?—I cannot remember them, but large sums have been raised.

13824 Very large sums have been raised, in fact, millions during the last five years?—Yes, millions certainly.

13825 Every year those large loans still continue. Despite the adverse circumstances, both political and financial, in this country still England is in a position to assist the Dominions and other parts of the Empire with extensive financial accommodation?—Yes.

13826 If accumulation could be found for foreign countries and the Dominions do you seriously consider there would be any difficulty in obtaining a loan for India on good securities—on the securities of the revenues of the Government of India?—I think that India could come into this market and raise money at any time for a purpose which commended itself to those who were to lend it, but I think it would be difficult for India or for any other country to come into this market and raise money for the purpose of putting gold into circulation in India, just as it would be for any other country.

13827 So you think it is the purpose of it which will frustrate the scheme?—The purpose and the silver.

13828 I am coming to the silver presently. You think in the initial stage it is the purpose which will frustrate these loans?—The purpose of these loans being to remove gold from one place and put it into circulation in India.

13829 Let us look for illustration to other countries. When Germany and France demonstrated silver and went in for gold they had to raise credits. Were their credits affected then by the mere fact that they were introducing a new form of currency which was detrimental to the interests of England and America? Did the mere fact that Germany went in for gold prevent her raising credits in the European markets at that time?—I do not remember. I do not even know the facts. (Sir Charles Addis.) If I may be allowed to say a word here, the circumstances are not the same in the two cases, especially as regards our experience of the disastrous consequences which followed the monetary action taken by Germany in 1871.

13830 You mean subsequent events have thrown light on it?—They have powerfully influenced the economic opinion of this country.

13831 (Chairman.) Will you explain what the consequences were?—The effect upon world prices of a fall of 40 per cent from 1874 to 1896. It was the effect upon world prices which was so disastrous in my judgment—the effect produced by the gold accumulated by Germany and the sale of silver.

13832 (Sir Manekji Dadabhai.) I want to keep the question of world prices separate. At present I am on the question of credits?—With respect, I was replying to a question by the Chairman.

13833 (Chairman.) Sir Charles's answer is that the effect of that operation was a bad one on world prices?—I think the word "disastrous" is not too strong an adjective to apply.

13834 (Sir Manekji Dadabhai.) In connection with this argument, Mr. Montagu Norman, you told us that the accumulations of gold in America would take ten years to absorb in ordinary circumstances?—That is an estimate, nobody knows.

13835 And you thought, therefore, that for this reason America would not favour the idea both of loans and of parting with the gold. If the absorption took place so rapidly the price of gold would appreciate, would it not?—I do not remember having said that.

13836 No, I did not say that. If the absorption took place so rapidly the price of gold would appreciate, would it not?—(Sir Charles Addis.) In so far as the gold is withdrawn from the sterile hoards of America, prices would not be affected in the way you suggest. In so far as it is drawn from the countries where it is already performing a monetary function, prices would be affected.

13837 But economic production would be larger. People would go in for more intensive operations in the matter of producing gold and also of raising gold from low grade ores, which they have at present abandoned temporarily?—If the value of gold appreciated then there would be an increased incentive to deal with low grade ores.

13838 And there would be an increased incentive for increased production?—Yes, I agree to that.

13839 So the real apprehension of the United States regarding shortage of gold supply would be obviated by an increased production, would it not?—Increased production would obviously increase the supply *pro tanto*.

13840 And there would be no real and tangible apprehension regarding the shortage of the supply?—That is another matter. I do not think your conclusion is justified by your premises. You put certain hypotheses with regard to increased production, and the answer is that if that increased production took place there would be an increase in the supply, but there is no admission there that such an event will take place. (Mr. Montagu Norman.) If you will allow me to interpose for a moment here, I did not intend to convey to you that there was any unwarranted guess at the present time on the part of the United States to part with gold taken in vacuo—none at all.

13841 If she finds it to her advantage to part with gold if gold appreciates on the introduction of the gold standard in India, and if she finds it to her advantage to delodge all that gold she will do it?—Of course. (Sir Charles Addis.) If gold were the only thing to consider it would be greedy to her advantage.

13842 So after all this apprehension is largely conjectural—that America in her self interest will not help India raising the credits for the purpose of meeting the gold currency?—(Mr. Montagu Norman.) No. I do not think it is a conjecture at all. I think it is inherent in this scheme. That is the result of the best inquiries I have been able to make.

13843 (Chairman.) That is because of the silver aspect of the scheme.

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13831 If she finds it to her advantage to part with gold if gold appreciates on the introduction of the gold standard in India, and if she finds it to her advantage to dislodge all that gold she will do it?—Of course. (Sir Charles Addis.) If gold were the only thing to consider it would be greatly to her advantage.

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silver aspect of the case. You base your argument on the fact that the silver conditions in the United States will be affected by a large quantity of silver being dislodged for the purposes of sales, and that it will affect the silver industry, which is practically confined to the United States at present. You apprehend that there will be a serious reduction in the price of silver. I am not at present dealing with the case of China to which you referred. I will deal with India on its own merits. You apprehend that large quantities of silver will necessarily go out from India when a gold currency comes into operation, and that the price will considerably depreciate. Let us deal with the situation. We have been informed by credible witnesses that the rupees in circulation range between 250 and 300 crores. You are aware that India has a population of nearly 320 millions, in fact one-fifth of the human race. Do not you think that in a country with such a vast population the need for some form of subsidiary currency will always exist? Surely everybody could not have gold, and therefore silver would necessarily form an important item for the purpose of ordinary barter and exchange?—I think currency would always be needed in India.

13,835 Do you really think that, with 250 crores spread over a population of 320 million people, enough silver would go out into the market to considerably reduce prices?—I am going entirely on the figures which have been put before me, which show that three years' world supply would be for sale as the result of this operation.

13,836 It is on that assumption that your answer is based?—It is on the information contained in these papers.

13,837 But you do attach importance to the fact that a large quantity of silver will be required and will act as a subsidiary currency for many years to come even with the introduction of a gold currency?—I believe that has all been taken into account in these figures.

13,838 I will ask you to eliminate from your consideration those figures for the moment. I ask you, on the general basis which I have put before you, whether you still apprehend that silver would considerably depreciate in value?—From my whole consideration of the subject I am driven to the conclusion that it would greatly depreciate, but I have made no independent study of the situation.

13,839 Sir Charles, you have been in India. You know the habits, conditions and the traditions of the people. They like to hoard silver, and their marriage customs and other domestic events make it obligatory on them to make extensive presents in silver. Do not you think large quantities of silver will always be required for domestic purposes, and that if silver goes down in price there is little likelihood of its export, but that it will be retained internally for domestic purposes?—(Sir Charles Addis) It is many years since I left India, and I understand that during the time that has elapsed—more than a generation—the habits of the Indian people have changed considerably with regard to their currency. Note issues for instance, which would have been impossible in my day, are becoming a matter of common form. Now if you introduce the use of currency gold into India I am not quite clear as to how far the use of notes based upon gold might extend with the result that the silver in your reserves would be dislodged. There might also be a compensating decrease in the silver circulation. For the rest I share your opinion that silver is never likely to go out of use in India.

13,840 There is less likelihood of silver depreciating?—That is so, but you have to take account of the psychological effects of monetary changes. The announcement that the policy of the Government was to put gold into circulation would lead a number of people to believe that a deadly blow was aimed at silver. The belief would be widely shared outside of India in spite of the internal demand to which you

refer. For a time it might knock the bottom out of silver. The fall might be severe.

13,841 Would it be gradual?—No, I think it would be immediate. If you were to announce to-morrow that it was your intention to reduce the legal tender capacity of the rupee to 50, the result would be an immediate fall in the world price of silver.

13,842 How do you reconcile that with your statement that people in India for generations past have regarded their stores of silver rupees as stores of value?—You have to consider an element in the population of India, numerically insignificant, but important on account of its wealth. Gold is a more desirable form of hoard than silver, and always has been. The poor man does not hoard silver because he prefers it to gold, but because he is so poor.

13,843 You have also stated, in discussing what would be the effect on the silver market of the world, that only 30 per cent of precious metal ores will be affected. 70 per cent you give to the base ores. In the 30 per cent of the special metals which will be affected all the world over, India's share would be considerably small, would it not?—You mean the effect upon the base metal mines will not be great.

13,844 I refer to the 30 per cent.—I do not think that (Mr Montagu Norman) I think it will be enormous.—(Sir Charles Addis) Where you have a joint product the effect of the shutting down of other mines might mitigate the effect. But the effect would be felt in copper as well as in silver. The composite product per unit of the silver and copper extracted from the copper mine would be reduced, and the cost of production of copper increased.

13,845 Hitherto, when Indian loans have been floated in this country in sterling, there have been no difficulties. Even the last loan was subscribed, I understand, in a few hours. You have stated that the purpose will prevent subscribers supporting new credits. Am I to understand from that that both the United States and Great Britain will stoop to the frustration of these loans merely because India wishes to raise herself to the same level as the Western nations?—(Mr Montagu Norman) I do not think you are to understand that at all, nor did I intend to imply any such thing. I have not the least doubt that if India wishes to raise a loan to-morrow or the next day she will be able to do so, and every assistance will be given, but in these matters I think we have to endeavour to work by co-operation and good understanding. I trust very much that we here are going to have the pleasure of continuing to co-operate with India in such matters as these. What we are considering now is the question of joint interest, of mutual interest. It is wise for India now, having regard not only to her position but to the position of the world of which she is a part, to carry out this scheme. That is the point. The carrying out of this scheme, through the silver side of it in the main, produces, as I have been informed, serious difficulties. In regard to the credits needed for it, I have told you my expectations. For the reasons given it would be extremely difficult to obtain such credits in the United States. I trust very much that India and all those desirous of promoting the common good, including that of India, will see that to force the question of credits for this purpose is neither to her interests nor to ours. Is not that a fair way of putting it?

13,846 I put it in this way. I am not seeking merely to oppose. It is obviously for India to decide what she is going to do, and for us to consider in what way and to what extent we can co-operate with her, but India will recognise that we are obliged to approach these questions from certain special angles, and I trust that she and her representatives will in the course of their deliberations give consideration to the matter as viewed from those angles.

13,847 You say "in our joint interests." Is it not in the interests of Great Britain that India's currency policy should be put on a firm basis?—Does not the present exchange policy considerably hit Manchester

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and other parts of Great Britain in the matter of trade with India? It is not therefore necessary in the interests of England that India should be placed on the same basis as England in order that trade

between the two countries can be carried on with mutual advantage?—I certainly think it is to the advantage of India to have her currency on a stable basis—certainly

(The witnesses withdrew)

## FORTY-SECOND DAY.

Wednesday, 14th April, 1926.

## PRESENT

The Right Hon EDWARD HILTON YOUNG, PC, DSO, DSC, MP (Chairman)

Sir RAJENDRANATH MOOKERJEE, KCIE,  
KVO

Sir NORCOT HASTINGS YERLES WARREN, KCIE

Sir REGINALD MANT, KCIE, OSI

Sir MANICKJI BYRAMJI DADARHAT, KCIE

Sir HENRY STRAKOSCH, KBE

Sir ALEXANDER ROBERTSON MURRAY, CBE

Sir PARSHOTUNDAS THAKURDAY, CIE, MBL  
MLAProfessor JAHANGIR DOOVERJEE COYAJEE  
Mr WILLIAM EDWARD PRESTONMr G H BAXTER } (Secretaries)  
Mr A ATANGER }

Mr CHARLES NICOLL, called and examined

13,614 (Chairman) You have been long enough to come and assist us this morning on the subject matter of our enquiry. You are General Manager of the National Bank of India, and I understand that the memorandum\* with which you have been good enough to supply us expresses the views of the Eastern Exchange Banks?—The British Exchange Banks

13,619 There is an Association of those Banks, is there?—Yes

13,620 The membership of which is set out in a note to your memorandum?—Yes

13,631 So we may understand that the memorandum is supported by the Association with that membership?—Yes, that is so

13,632 I just want to ask you one or two questions in order to elucidate the principal headings of your evidence. In paragraph 2 you say "We are in favour of a gold standard, i.e., that it is put on the Statute Book that the Government is bound to buy gold at a rate to be fixed upon (this will depend on the basis at which the rupee is fixed) and to sell gold for export (or the equivalent in gold funds)." Do you mean that it would be at the option of the currency authority whether gold or exchange should be sold, or are you referring to them as *alternative* systems under one of which the obligation would be to sell gold, and under the other of which the obligation would be to sell exchange?—I think that would be at the option of the Indian Government. If they have funds available on this side those funds might be utilised for payment in what is commonly known as Reverse Councils

13,633 Then you are not recommending that there should be any absolute obligation on the part of the currency authority to sell gold metal?—No, but they would either have to sell gold or give the equivalent in London

13,634 How would you define the obligation to sell exchange? Would it be an obligation to sell sterling only, or exchange upon other gold centres?—I should say an obligation to sell against funds in London

13,635 London only?—Yes

13,636 In your opinion would this operate in practice as a gold standard or as a sterling exchange

standard? What would be the effect of it?—It is difficult to differentiate between a gold exchange standard and a gold standard

13,637 What would happen, for instance, if the pound sterling wandered from the gold sovereign?—If the Exchange Banks wanted to send gold to India they would have to pay the price for it—whatever price was ruling

13,638 It would be in effect pegging the rupee to the pound sterling would it not rather than to gold?—No I think it would peg it to gold. If banks wanted to send funds to India they would have to buy gold at the market rate

13,639 But supposing the pound sterling were cheaper than the gold sovereign, and the Indian currency authority, at its option, could supply that cheaper?—You are talking of gold for export?

13,640 Yes I ask you because a great deal of evidence which we have taken in India is directed against a sterling exchange standard as being a standard which would not satisfy Indian public opinion and is insistent upon a definite gold standard in which the rupee is pegged to gold. Supposing there were to be a strong public opinion in India of that nature, would that make any difference to your allowance of this option?—I think it would

13,641 Under those conditions perhaps you would be more inclined to say that the ultimate obligation should be to sell gold for export?—Yes I think so

13,642 Do you believe there are any practical difficulties from the banker's point of view in ensuring that gold so sold is exported? It is suggested to us that this is a condition which it may be practically difficult to enforce?—I think some arrangement could be made to ensure that the gold given out would be exported. I do not know what the method would be exactly, but I think it is quite feasible to follow that gold and to see that it is used for the purpose for which it was given out

13,643 You have not perhaps given any consideration to what the actual conditions or regulations for practical safeguards should be?—No but I do not think there could be any difficulty in following up that gold and seeing that it was exported. It would be given out in considerable amounts

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Mr CHARLES NICOLL

[Continued]

1354 You would have some minimum amount?—Yes.

1355 What minimum have you in mind?—I should think perhaps £20,000.

1356 Your Association emphasizes the Government because there are of the opinion that for the present there is no other authority to whom those duties could legitimately be delegated. I understand from that that you are adverse to the delegation of such duties to the Imperial Bank of India?—No, I cannot say that, because I am ignorant of what the status of the Imperial Bank of India is to be in future.

1357 Let us take it in steps. You say the present Imperial Bank of India?—Yes. Under present conditions we are in favour of the Government retaining control of the paper currency.

1358 You say that under present conditions you are in favour of the Government retaining control of the paper currency?—Yes.

1359 May I ask whether you can expand that and tell us what considerations have led you to that opinion?—We think that the obligation for redeeming the currency notes should be on the Government of India and for that reason we think the control should remain in the hands of the Government of India that is that the people who give the guarantee should have the control.

1360 That reason would apply, whatever the status of the Imperial Bank of India was would it not?—No. It is rather hypothetical. I do not know.

1361 You tell me that you think the obligation to redeem the notes should be that of the Government?—Yes.

1362 And I understand that that is because you consider that the full authority of the Government should be behind the note?—Yes.

1363 It occurred to me that that was because you thought that the Indian people would have more confidence in the note?—Yes, that is so.

1364 And it would follow from that would it not that that would be so, whatever the status of the Imperial Bank was? If your answer is no, then I will go on and ask you what change in status you deem desirable?—I can only say that under present conditions we think the notes ought to remain an obligation of the Government of India, and that the Government should maintain control of the note issue.

1365 Let me put to you an hypothesis. Supposing there were a true Central Bank in India—that is a Central Bank constituted upon a similar basis to that of the Central Banks which are familiar to us in European systems, would it then be your opinion that the duties in connection with and the control of the paper currency should be delegated to that true Central Bank?—I am not very familiar with the functions and the constitution of Central Banks. Before I could say that the control of the note issue should pass to a Central Bank and should be an obligation of that particular Bank I should want to know something about the constitution and functions of it.

1366 To what elements in the constitution of the Central Bank would you look as relevant to the question as to whether it should have control of the paper currency or not? What would your requirements be as regards the constitution?—My requirements would be that any obligation of the Central Bank would be an obligation of the Government. I have not given this matter on which you are interrogating me very careful consideration.

1367 Do not let me press you on anything to which you have not turned your mind?—There was a meeting of the banks which are named here but this question of a Central Bank was not discussed at all and I cannot speak with any authority on it.

1368 Very well. Perhaps we can only say upon this that you would have to reserve your opinion as to whether such a bank should have control of the currency or not until you could give more consideration to the question of the constitution of that

Bank?—Or had some information about what is proposed as regards the constitution of the bank.

1369 Precisely but I am very anxious to get an accurate idea of the weight of your evidence, which has produced upon my mind this impression—you will tell me if it is a correct one. You would consider it an open question as to whether the control of the paper currency should be transferred to a Central Bank to be considered in the light of what the Central Bank is?—Yes.

1370 And that your recommendation that it shall be a Government Note is not an absolute one that must hold whatever the nature of a Central Bank may be?—As I see things at present, unless the obligations of the Central Bank were guaranteed by the Government of India I do not think I would be in favour of any change from the present procedure. The notes should remain an obligation of the Government.

1371 You say "as at present." Are you referring to the general conditions of India or are you referring to the present constitution of the Imperial Bank?—I am only thinking of what the result would be if the obligation for the redemption of the notes passed from the Government as at present to the Imperial Bank or to any other institution. I think it would interfere very greatly with the circulation of the currency notes.

1372 Taking on to your next paragraph as to Council Bills you say they should be put up for public tender in India and London. Will you expand that a little by explaining just what mechanism you are contemplating? Would the Council Bills be put up for public tender in India?—I think most of the Banks would prefer to have Council Bills sold on the old system at home but I believe there is some perhaps sentimental reason (I do not know) why part at least of the remittances from India should be arranged in India. It might be feasible to arrange that part should be sold on the old method as Council Bills and part by remittances from India.

1373 Have you any objections to the recently introduced system of purchase of a rupee in India?—Yes. I think the method is not quite what it should be. I do not think the sale of those remittances should be arranged through exchange brokers in India.

1374 You would eliminate the broker?—I would eliminate the broker altogether.

1375 That is a matter on which I must confess extreme ignorance. What harm does the broker do?—It makes it more expensive to the Banks for one thing, and I think the Banks should be allowed to go direct and get their remittances from the Government.

1376 Are not they allowed to do that now?—In some cases I believe they do allow it. In other cases it is given out by the Imperial Bank to brokers to arrange the best rate they can and the broker may have some other business to fit in along with it which is rather against the interests of the Banks. I am speaking personally now.

1377 I am wondering whether this is not a matter within the Banks' own hands for remedy?—No. I understand the system is that when the Imperial Bank wants to remit on account of the Government they give out £100,000 to one broker £200,000 to another broker and £100,000 to another. The brokers go round the market and see whether they can place it. The Banks pay them a brokerage which is quite unnecessary. It is more expensive to the Banks than remitting to India by means of Council Bills.

1378 Is it the idea that this gives the broker some opportunity for undue discrimination?—It might be that. It provides him with a good income.

1379 In practice are there complaints of discrimination?—I cannot say that I have heard personally any complaints about discrimination but I can quite understand that they might very readily arise.

1380 We may recognise I suppose that this is not an objection inherent in the method?—Oh no.



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13916 Yes—I think if gold became currency in India the coin would be too big for the requirements of the people.

13917 In paragraph 7, stabilisation of the rupee, your Association expresses the opinion that the advantages attending the adoption of the rate of 1s 6d, which has been the working rate for some time past, outweigh the disadvantages and consequently they see no objection to stabilising on the basis of 1s 6d. Can you explain at all the principal considerations which have led you to that opinion?—There have been two rates talked about—1s 4d and 1s 6d, and I do not know that there is any special merit in either of them, but we are at 1s 6d now, and going back to 1s 4d would lead to very great complications, unless it could be done very gradually, and we do not see a way of getting back to it.

13918 How would you set out to get back to 1s 4d?—It could only be done through the ordinary trade channels. If imports were largely exceeding exports, of course exchange would go down.

13919 Your final paragraph deals with the matter of gold reserves. As I have understood the weight of your evidence so far it is directed against a gold currency in circulation as a suitable currency for India?—Yes.

13920 That creates a little difficulty in my mind, because in your last paragraph it appears to me as if you were contemplating that that should nevertheless be looked upon as a possible future system?—I am afraid that is so.

13921 And it comes to a head when you say that you advocate a policy which will increase the gold reserves?—The gold reserves should be increased by the gold going to India in payment of exports.

13922 But if you do not want to have a gold currency why should you take that measure?—After all, very few countries do have a gold currency. There is no gold currency in England, and, as I say, gold currency is such an expensive luxury that I think one is better without it.

13923 You see my little difficulty, Mr Nicoll. You pronounce against a gold currency but then you advocate a policy which will increase the gold reserve for the purpose of introducing a gold currency?—Yes I see.

13924 I was wondering whether there was any other reason for increasing the gold reserves?—I do not think so.

13925 You cannot relieve me from that dilemma at all?—There is no other reason. There has been a good deal of talk about gold for India, and this may have been put in for some sentimental reason.

13926 I must not press you unduly, but it is an expensive policy to increase gold reserves beyond what is necessary for the stable basis of the currency is it not?—Yes it would be much better if those reserves were earning interest. At the same time, there has been a good deal of talk in India about building up gold reserves—in fact of transferring funds which are held in this country to India in gold. Those funds belong to the people of India, and if they think they should be held in India I do not see that one can argue very much against it.

13927 Have you any information as to what the amount of gold reserve should be before a gold currency could be introduced—what gold you would have to have in reserve?—A very large amount. If you had a gold currency—at notes could be exchanged for gold—I think the note issue would diminish very largely.

13928 You are of opinion that the interchangeability of notes for gold would lead to a large reduction in the note circulation?—Yes that is so.

13929 Is that based upon any actual experience of the past?—No. There has been nothing to guide one. It is only what one knows of the hunger of the people of India for gold. They would rather have gold than currency notes.

13930 You recommend that council bills should be sold only to the actual extent of Government's published Budget requirements?—Yes.

13931 I wanted to see just how far that recommendation carried us. Could we read it in a broad sense that over a reasonable period Government's requirements and remittances should balance, and that remittances through the Government balance should not be used for the purpose of controlling exchange?—I think the idea in restricting the remittances of the Government of India to Budget requirements—home requirements—was that it would be an incentive for gold to go to India and increase the gold reserves of India against the Note issue.

13932 But would you carry the restriction so far as to prevent the Government under favourable conditions, anticipating its requirements in a manner which might seem prudent?—You mean so much only should be allotted every week?

13933 Yes?—Oh no. I think when the active export season starts, or when they are financing the crops they should increase the amount of council bills at that period or perhaps withdraw them altogether at other periods.

13934 That is to say, they should take advantage of the market as a reasonable business man would?—Exactly. When the exchange was high—which would very likely synchronise with the export season when money was wanted then they would sell their council bills freely. In the monsoon period, when money was not wanted and the crops were growing before the harvest time, then they could reduce their drawings.

13935 So that the weight of the recommendation is this—that the Government transactions should cease to be made use of for the purpose of controlling exchange—they should only be made use of actually with the single object of meeting Government's requirements?—I think so.

13936 (Sir Reginald Mant.) In paragraph 9 of your memorandum you recommend that Government should be bound to sell gold for export or the equivalent in gold funds. When the Chairman asked you what would happen if sterling broke away from gold you modified that recommendation I think?—Yes.

13937 And you said that you would make the obligation to sell gold only?—Yes.

13938 Because of the difficulty of defining the equivalent rate of sterling?—Yes.

13939 Could not you get over that difficulty by requiring the Government to sell gold or gold exchange at par?—What do you call par? They would only sell at the bullion point. That is if your exchange was 1s 4d, they would sell say at 1s 3½d—the ½d being estimated to cover the shipping charges.

13940 If sterling was depreciated they would have to sell more sterling to make it equivalent to gold. Would it not be possible to arrange that?—Yes I suppose it would but then it would be a very fluctuating quantity. You have seen the fluctuations in the American exchange of recent years, and I do not see how you are quite to arrive at the amount of sterling that would be necessary to equal the amount of gold. It would be rather difficult to fix the amount of sterling that would be required.

13941 It would vary, of course?—It would vary with the rate of exchange. I think it might be feasible.

13942 It would not be necessary to confine yourself to gold but it would be possible still to sell gold exchange although sterling had depreciated?—Yes, I think that might be possible.

13943 Turning to paragraph 4 where you say that no additional currency should be issued that is not covered by the actual tender of gold coin or bullion in India and/or in London earmarked for shipment to India would not that result in your getting too much gold?—I do not think so. I think gold would only go to India to pay for credit requirements—do pay for exports.

13944 But you said in reply to the Chairman that it was unnecessary to pile up very large gold re-

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[Continued]

serves whereas this policy would eventually have that result?—Did I say that?

13943 I understood you to say so—that you thought it would be very expensive?—No, the gold currency would be very expensive. Perhaps I made a remark that it was expensive to have a large accumulation of gold when that gold could very well be invested in securities. I may have said that but then as I say this money belongs to the people of India, and if they are desirous of seeing these large reserves of gold I do not see why they should not have them.

13946 Your scheme makes no provision for investing any part of that gold in sterling investments?—No.

13947 And you do not think it is desirable to invest any of it?—I think it is desirable to have part of the reserves of the paper currency in British Government securities.

13949 This recommendation in paragraph 4 would not allow of that. The gold must either be tendered in India or be marked in London for shipment to India?—You can only get funds for investment in this country if the Secretary of State sells largely beyond his Budget requirements. That is the only way that funds can be laid down in this country.

13949 But you could invest this gold which you suggest should be marked in London for shipment to India. If necessary you could invest it?—That question of earmarking gold was simply raised by one of the members of the Association who said "Suppose the banks at any time wanted to get money there in a hurry and the Secretary of State was not selling council bills at that time we would have to ship gold, and we would have to wait for about a month before we could get the proceeds of it." This clause about earmarking was put in to meet the requirements of any bank who wanted money urgently in India, and the method that might be adopted would be by passing the bills of lading through the Imperial Bank and getting advances straight away in India. But that does not meet your contention, I can see.

13950 No, it does not.—If the people of India want to have gold reserves they cannot have their money here as well. They must either have it here, or they must have it in India, and I say it is much more expensive to have those gold reserves lying idle without earning anything. I agree with you. But you cannot have it both ways. If they want that gold in India they can have it but they cannot have it earning interest on this side as well.

13951 I understand that your recommendation is based not on considerations of what is best and most economical for India, but on the sentimental desire of India to possess a lot of gold?—Yes, there is a good deal of that in it.

13952 Under this scheme, all further additions to currency in the busy season would be provided by imports of gold?—Yes, and the Secretary of State would probably sell more freely in the busy season than he would do in the non-season.

13953 How would the superfluous currency be drawn off in the slack season? Do you contemplate that there would be a considerable export of gold from India in the slack season?—I do not think so. I think India will always export more than she will import even in bad times.

13954 But, still, there is a larger demand for currency in India at certain periods of the year?—Yes. There always has been and always will be.

13955 And if the gold was not to be exported then there would be a redundancy of currency during the slack season. How would you provide for withdrawing that currency?—I do not know that it would require to be withdrawn. Why should it be withdrawn?

13956 Because it is redundant?—It always has been redundant in the slack season.

13957 But do not you regard that as a drawback to the system?—If it was redundant to the extent of

depreciating exchange, that currency would be withdrawn by reverse councils.

13958 That is coming back to the original scheme of selling sterling exchange?—Yes.

13959 You have reverted to that?—Either that, or the export of gold.

13960 You think that the export of gold would provide a sufficient means of drawing off the redundant currency?—I think so.

13961 (Sir Purshottandas Thakurdas) The various banks on behalf of which you speak to-day have been established in India for a number of years?—For a great number of years.

13962 In some cases extending to nearly half a century?—More than that.

13963 They work at important ports in India, and have branches at centres where there are imports to be financed?—Yes.

13964 I think I am right in saying that these banks play no part in financing the cultivators' crops inland?—Very little.

13965 You represent the British Exchange Banks, but there are other exchange banks similarly interested also in the export trade of India?—Yes.

13966 Such as the Japanese?—Yes, and Dutch and American banks.

13967 And there are one or two Indian banks which also do exchange business?—Yes, I think there are one or two.

13968 I take it that you have not ascertained the views of those foreign exchange banks nor of the Indian exchange banks?—No.

13969 In connection with what you said in answer to a question put to you by Sir Reginald Mant, what do you think would be the advantage to India of buying sterling securities in London instead of having gold in India?—The only advantage would be that those securities would be earning a rate of interest. That is the only advantage.

13970 Other important countries would not overlook this advantage of interest. Do you know if any of them keep their balances of trade in foreign securities, or do they mostly go in for gold and strengthen their currency position?—I do not think I can say what other countries do, but I should think they are all wanting to get gold just now.

13971 Is there any reason why India should look at the 21 or 22 per cent interest which can be earned on securities?—I did not quite catch that.

13972 Is there any reason why India should have her eye on interest which can be earned on securities, in preference to gold?—I think that India can choose for herself what she is going to have.

13973 My point was, Mr Nicoll, that you said in reply to Sir Reginald Mant that India's preference for gold in her currency reserve was based on sentiment. I suggest to you that there is no sentiment about it. It is sound common sense, picked up from what other important countries are doing?—You ought to know. It appears to me that the people of India, instead of having these large amounts lying fallow in India earning nothing would rather have them earning a decent rate of interest.

13974 Would you call it sentiment if you bore in mind the experience which India had with regard to sterling securities after the war?—What was her experience?

13975 The depreciation in the sterling?—Depreciation in securities?

13976 Yes?—Did India lose money over that?

13977 I am asking you. I am sure you have a very good recollection of what happened to India's holding of sterling securities during that period?—I cannot recollect that India lost any money over that.

13978 Take the balance of trade of India which, during the war period, had accumulated to the extent of several millions when it had to be remitted to India at the end of the war, what happened to India's resources here?—Had it got to be remitted to India?

13979 How did the balance of trade get to India—the £250 crores which was here in British Treasury

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Bills till September, 1919? Regarding gold currency, you said that very few countries have gold currencies. You mean that very few countries can afford to have gold currencies, do you not? Or do you think that of those which can afford gold currency very few have it statutorily permitted?—I think there are very few countries which have a gold currency.

13,980 Let us take a few countries. South Africa has a gold currency?—Yes, but only quite recently.

13,981 Switzerland has a gold currency?—Yes.

13,982 Holland has a gold currency?—May be.

13,983 America has a gold currency?—I do not know that very much gold circulates in America.

13,984 Gold currency is available there?—Gold is there, no doubt, but I do not know that it circulates.

13,985 England is aiming at it?—I do not know.

13,986 I would like to quote to you an extract from the Times Trade and Engineering Supplement, dated 30th January, 1926, of a speech of Sir Felix Schuster at the Annual General Meeting of the National Provincial Bank, which I understand is one of the five big Banks. "Personally I hope that before many years are over we shall have sovereigns once more in circulation."—Yes, but that is only one man's opinion. You get another man to stand up and say quite differently.

13,987 You believe that others may disagree with him?—I think that a gold currency is a very expensive thing.

13,988 The question of the cost involved would therefore be for the country and those who are responsible for its taxpayers' money to decide, would it not?—The taxpayer would have something to say.

13,989 Why not let them decide whether they want to go in for this luxury or not? The question is whether anybody would be justified in keeping a country away from it if they were prepared to shoulder the burden?—It is for the people of the country to decide for themselves.

13,990 Therefore those who have to pay for it should decide it?—If they are willing to pay the price they may have it.

13,991 There is nothing wrong in it?—There is nothing wrong.

13,992 And further said you are against gold currency in India because you think the unit would be too great for the requirements of the masses of India?—I think so.

13,993 Presumably in that case gold currency will not be rushed for in India. They will not take to it very violently because the unit is so great that people cannot afford it?—Not for currency.

13,994 Therefore for the purposes of currency, if gold currency can inspire confidence among the masses there is no risk of the people rushing for it?—I do not agree with you.

13,995 I would like to understand that?—I think that the attraction of gold for the native of India is so great that he would rather hold gold if he can do so than hold currency notes.

13,996 But the people of India can get as much gold as they like at present in the open market?—They can.

13,997 I understand that your bank is one of the largest importers of gold in India?—We import a good deal.

13,998 Does the National Bank make any distinction between people who buy gold at the bank's counter based on the use they propose to make of the gold?—I do not understand you.

13,999 Do you make any enquiry of a buyer of gold whether he wants it for genuine industrial purposes or hoarding?—No, we know it is for hoarding, and there is no use in making enquiries.

14,000 Any men can take gold from your bank on putting up the required money?—Yes.

14,001 What is there then which justifies your thinking that the people here not at present take all the gold they want?—When they see there is gold there and they have got currency notes in their hands, they will come and exchange those currency notes for gold.

14,002 People will substitute gold coin for the currency notes they use at present—that is your opinion?—Yes.

14,003 Do you think they would continue to do it very long?—I cannot say.

14,004 They have been replacing the silver rupee by the currency note in India fairly progressively as it is—Are they? I am glad to hear that.

14,005 They are reported to be doing that. When the charm of the fresh gold coin has disappeared, may not this repeat itself?—It is difficult to say where all this gold currency would filter to.

14,006 Where can it filter to?—The whole of Asia.

14,007 You think it goes to the whole of Asia?—Yes. There is no gold currency in Asia yet, is there?

14,008 You have so many branches that I would rather go by your information on that score—There is no gold currency anywhere in Asia.

14,009 Therefore this would go there?—Well, adjoining countries would take a lot of the gold that circulates in India.

14,010 The imports of gold into India till now include sovereigns?—Yes.

14,011 If any part of Asia which is connected with India wants gold coin, there then exists even at present a way of their getting it?—Yes, that may be, but the gold coin and gold bullion that is imported into India remains very largely in India at present, I think, but if there were to be gold coin circulating from India to hand through India I think in course of time a large amount of that currency would filter into other countries such as Mesopotamia, Persia, Tibet, and perhaps China. You would have to fill the whole of Asia with gold.

14,012 Before 1914 the British sovereign was effective legal tender in India?—Yes.

14,013 And was freely available from the Government Treasury?—I am not quite clear on that. You mean you could go with 15 rupees to the Government Treasury and get a sovereign for it?

14,014 Yes, at the option of the Government—Ah, that is so.

14,015 But in fact, immediately after the outbreak of war sovereigns to the extent of 3 crores of rupees were given out by the Indian Paper Currency Office?—Was not that because there was a shortage of rupees?

14,016 No, what I am referring to happened immediately after the outbreak of war in 1914—I do not recollect that precisely.

14,017 We will then leave 1914 alone. But before 1914 the British sovereign was available in India?—But there was no obligation on the Government to give a sovereign for 15 rupees.

14,018 At the option of the Government the people could get a sovereign for 15 rupees—At the option of the Government.

14,019 And fairly large quantities were given out by the Government?—Yes.

14,020 Did the sovereign thus given out by the Government of India filter to Mesopotamia and other parts of Asia?—They all disappeared anyhow.

14,021 Did they?—Yes, and so did the gold mohurs that they coined—they disappeared, too.

14,022 Your experience is that the sovereign which was given out by the Indian Currency Department before 1914 at their option disappeared?—They have disappeared so far as currency purposes are concerned.

14,023 Would it surprise you to learn that the sovereigns returned to the Treasury?—If you say so, but I have no information on that point.

14,024 Regarding the Secretary of State's requirements, you said that you would like the Secretary of State to tell Councils here in the busy season in India?—In India.

14,025 When the crops are being marketed in India you would like the Secretary of State to tell

\* 11th Babington-Smith Committee Report, Volume III (Appendix), Appendix B, statements showing absorption of gold coin from 1868 to 1916, pp. 12-23.

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Councils more free than at other times?—Yes, in the season.

1400 The fact that there is an accumulation of larger balances with the Secretary of State here than would be justified by his requirements at that period?—Yes, than justified by his immediate requirements.

1402 The amount of interest earned on such balances in London varies between 2 and 3 per cent now?—Yes.

1403 Do you think that that money in India would be very useful for commercial credit during season months?—But the equivalent has been given out in currency in India.

1404 I beg your pardon.—The equivalent of that money that is lying here that is represented by the Secretary of State's drawings has been given out in India for currency purposes.

1405 Exactly, but if anything in addition to the Secretary of State's requirements were remitted here, and the currency in India was contracted, to that extent you would not approve of it?—I do not think such would happen in the busy season.

1406 You do not think it would happen?—Not in the busy season but I am not quite sure that I caught your question.

1407 If larger remittances were made from India than were necessary for the Secretary of State's requirements here, that would not meet with your approval?—It would meet with my approval if money was wanted in India and remittances were made during the busy season to meet the requirements of trade.

1408 It would meet with your approval?—It would meet with my approval.

1409 Then the restriction that you put in paragraph 3 of your written statement is intended to have what effect? You say there "Council bills only to be sold to the actual extent of Government published Budget requirements."—Yes, that is taking the whole year round but in one month he may sell two crores of rupees, and in the off-season he may sell nothing at all.

1410 Supposing the total requirements of the Secretary of State in a year were £30,000,000, you would not like them to remit £16,000,000 in a year? That is what I understand you to say.—No.

1411 But the £30,000,000 may be remitted in three months or in twelve months?—Yes.

1412 To that extent you would give them a discretion?—Yes.

1413 Regarding the sale of Councils, you say for tenders in India and in London?—Yes, I explained that it would be more convenient to have tenders in London, in my opinion, but some people in India think that India should have a hand in making these remittances, and I do not see why they should not.

1414 You say it is more convenient to have tenders in London?—Yes.

1415 I presume you mean it would be more convenient to the British exchange banks because they have their head offices here?—No.

1416 How would it be more convenient to the Yokohama Specie Bank or the International Bank, or to the Central Bank of India?—For the same reason that it is more convenient to us.

1417 You have your head offices here with the general manager?—Yes.

1418 The non-British banks would require their Bombay branch to wire here their requirements and ask them to put in a tender.—But if the Bombay branch would wire them if they wanted Council bills in time to enable them to put in a tender.

1419 I have no doubt they could do it, but my question is it would not be more convenient to them to do it?—I think it would meet their convenience all right.

1420 It would not be more convenient?—Well I say it would be just as convenient.

1421 It has been said by a witness before the Commission "Buying or selling of sterling, in

India by the Government should be adopted for the reasons that by far the greater part of India's trade emanates from India. Rates of exchange are fixed in India, and reversal to the old method of issuing Councils in London would not be in keeping with India's present day requirements. Would you agree with that?—No.

1422 Which part of the statement would you challenge?—Will you just read it over again?

1423 Buying or selling of sterling in India by the Government should be adopted for the reasons that by far the greater part of India's trade emanates from India. Rates of Exchange are fixed in India, and reversal to the old method of issuing Councils in London would not be in keeping with India's present day requirements.—That man has got an opinion of his own, but it does not fit in with mine. So far as our business is concerned (and I daresay other exchange banks are in the same position) we get our telegrams from our different branches all over India saying what amount of Council bills they would want. There are some places in India where they cannot get remittances from Government.

1424 Such as?—Rangoon.

1425 What I read out is from a witness in Rangoon.—Of course he had a personal interest. You must value his evidence accordingly. If he is giving that evidence from Rangoon he had some personal interest.

1426 I should have thought that he was most disinterested, because from Rangoon he is unable to tender direct, and still he recognises that the tender should be in India and not in London. That is why I particularly quoted this to you. If it was a witness from Calcutta or Bombay, he might be said to be interested, but a witness from Rangoon could not be so charged.—We find so far as our business is concerned it is much better to get our telegrams in from the different branches and put in one tender on this side.

1427 I follow that. The head offices being here it is more convenient.—Yes.

1428 But those who have not their head offices in London would not find it so convenient?—I do not think it matters to the others so long as they have got London offices.

1429 Regarding the question of ratio do you think that the question of the maintainability of 1s 4d can be put on a par with 1s 4d? Is it equally easy to maintain 1s 6d as to maintain 1s 4d?—You mean in case of a failure of crops?

1430 A failure of crops or a lull in trade.—I do not think it makes much difference.

1431 You do not think it makes much difference?—No, I do not think it does. If you got a stable fixed exchange I think you could maintain the 1s 6d rate just as easily as the 1s 4d rate.

1432 You do not think that at 1s 6d the risk of India's reserve being frittered away is greater than at 1s 4d?—I do not think so.

1433 The Finance Member found it necessary only this week to notify that he would sell reserves without limit?—Yes, that is quite true, but he had to do the same thing at 1s 4d once.

1434 Well, I do not know about that.—Yes, he had.

1435 There is the fact. The notification this week became necessary at the end of three, or perhaps four good monsoons in India?—Yes.

1436 And as a result only of a temporary lull in exports. It is not that the crops are not there to move. The crops are available for export but the prices do not fit in. There is a temporary lull in exports and the Finance Member had to raise the big stick in order to maintain the 1s 6d.—Are there surplus crops available for export?

1437 Well I would rather go on what you think.—I do not think there is the surplus that you perhaps think there is.

1438 I may have been out of touch with business for four months, being on this Commission. Perhaps

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you have up-to-date reports?—I do not think there are surplus food stuffs, anyhow

14,061 In spite of this phenomenon which we have seen only this week, you think it is as easy to maintain 1s 6d as to maintain 1s 4d?—Yes; this phenomenon which you saw last week was largely speculative. There was a report going about the Bombay Bazaar that the Currency Commission was going to fix the rupee at 1s 6d. That is the information that I have got, and that led very largely to this speculative buying.

14,065 Supposing by any misfortune Indian currency had been depreciated during the war period, as happened with other countries, and it was necessary to fix the exchange at 1s 3d—1 am asking you a hypothetical question, I admit—would the Exchange Banks not have pressed that the Fowler Committee had indicated 1s 4d as the permanent ratio for India?—I did not quite catch the last part of the question.

14,066 Supposing, during the war period, Indian currency had depreciated, and nothing over 1s 3d was easily available to India to stabilise on, would your Association have pointed out to the Government that the Fowler Committee had indicated 1s 4d as the permanent ratio for India, or would it have reconciled itself to a depreciation?—Well, what is the object of that question?

14,067 The object of the question is this. Do you think there is any sacredness about a ratio fixed by a responsible Government Committee 25 years back which was indicated as the permanent ratio for the Indian currency system?—Well, you must have some basis.

14,068 There it is, indicated in 1899.—As 1s 4d? 14,069 Yes, as a permanent ratio for the Indian currency system. You can take it from me that the expression there is "Permanent ratio"—Well, there has not been much permanency in any currencies during the last few years.

14,070 I agree, but the question is whether permanency, if available, should be passed by or not. If you cannot help it, there would be no question.—Was it fixed as permanent in 1899?

14,071 Yes, in 1899, by the Fowler Committee.—And adopted by the Government of India?

14,072 Yes; and it worked very well till 1914.—It is for them to say.

14,073 I will read paragraph 66 to you. "We are, therefore, of opinion that the permanent rate should be that which has been adopted as the provisional rate in the past, and which is also the market rate of to-day, viz., 1s 4d for the rupee." "Permanent rate" is the expression.—Yes.

14,074 Let me put it to you in another way. If the rate that was indicated as the permanent rate, and which worked well for a period of very nearly 20 years, or certainly 16 years, is to be disturbed lightly, and supposing that 10 or 15 years later India chose to lower the then existing rate, how would the exchange banks, which are vastly interested in exchange questions, look upon that?—I do not think they would mind. I do not think it would matter much to them.

14,075 You would not mind it?—No.

14,076 (Professor Coyne.) Can it not be inferred that the scheme as prepared by you—?—It is not prepared by me.

14,077 The scheme as fathered by you is a preparatory stage for the ultimate introduction of gold currency into India?—Not for gold currency.

14,078 Then why do you refer in No. 3 to cutting down the sale of Council bills, and in No. 4 say that no additional currency should be issued not covered by actual tender of gold and in No. 8 the increase of gold reserve—are not all those preparatory towards the ultimate introduction of gold currency?—Well, it might come to that if conditions were favourable, but it would be a very long time before they are, in my opinion.

14,079 In paragraph 5 you observe that the management of the currency notes should remain in the hands of the Indian Government. What are the possible dangers and difficulties which you foresee if the note issue is handed over to a central bank?—Well, I do not know what the central bank is, I do not know anything about its constitution or its functions. I cannot say whether the guarantee of the central bank would be a sufficient guarantee for the redemption of those notes which are issued.

14,080 Taking the present Imperial Bank as the central bank, could you suggest legislative safeguards and limitations by which such a transfer of the note issue would be secured?—No, I would have the currency notes as an obligation of the Indian Government. The Government or institution, or whoever it is, who guarantees the redemption of those notes, ought to have the management of the note issue.

14,081 You do not think that any restriction could be devised which would safeguard it?—I would not say that. If anything was put before me as to what the constitution of the central bank was to be, if there is to be such a bank, I could offer an opinion, but without some knowledge I could not offer an opinion.

14,082 (Sir Alexander Murray.) In connection with the question of the ratio of exchange, it was put to you that 1s 4d having been the ratio recommended by the Fowler Committee away back in 1899, and adopted by the Government of India, it was only natural that the rate should be allowed to continue.—Yes.

14,083 As a matter of fact, looking back the records, I find that the average rates of exchange that were ruling just before the Fowler Committee reported were as follows. You remember the Fowler Committee reported in July, 1899?—Yes.

14,084 I will just give you the figures for one or two years before that—years ending 31st March. In 1893 the average rate of exchange was 1s 2½d. This is the average rate of exchange for remittances.—Yes.

14,085 In 1891, the average rate was 1s 2½d; in 1895, the average rate was 1s 1¼d; in 1896, the average rate was 1s 1¼d; in 1897, the average rate was 1s 2¼d; in 1898, the average rate was 1s 3¼d; in 1899, the average rate for the year to 31st March was 1s 3½d. I have given you the rates for the seven years up to the year in which the Fowler Committee reported.—Yes.

14,086 In those seven years the average rate did not reach 1s 4d, yet the Fowler Committee recommended 1s 4d.—Yes.

14,087 That does not give any virtue to 1s 4d in your opinion, does it, seeing that that Committee simply fixed on an arbitrary rate after seven years when the average rate was below 1s 4d?—Well, the exchange at the present time, and for the last 12 months has been more or less stabilised on the basis of 1s 6d. I think that is the only factor that influenced the banks which are named in this letter to advocate a 1s 6d rate. It has been standing at 1s 6d. They foresaw if any figure below that or 1s 4d was recommended there would be very great difficulty and very great chaos in trade—if it went back to 1s 4d.

14,088 In your opinion in view of the figures I have given you, there would be more justification for the Commission recommending 1s 6d on the basis of the figures at the time than there was for the Fowler Committee recommending 1s 4d?—Well, when the Fowler Committee recommended 1s 4d the exchange was very nearly in the neighbourhood of 1s 4d, anyhow, there was no dislocation of trade.

14,089 (Sir Purshotamdas Thakurdas.) You read me, Mr Nicoll, that the Fowler Committee was recommending a rate for the first time, and had nothing to fall back upon?—I did not catch that.

14,090 (Sir Purshotamdas Thakurdas.) The Fowler Committee were recommending an exchange ratio in 1893 for the first time in the history of the Indian currency system.

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[Continued]

14,091 (Sir Alexander Murray) The Herschell Committee recommended it

14,092 (Sir Purshotandas Thakurdas) They only confirmed the temporary rate recommended by the Herschell Committee. There was no permanent rate on the Statute book before then—The Herschell Committee sat in 1893

14,093 And indicated a temporary rate—Of 1s 4d, I think it was

14,094 A temporary rate?—Yes

14,095 (Sir Purshotandas Thakurdas) The Fowler Committee confirmed that temporary rate for the first time as a permanent rate. I just want to mention that

14,096 (Chairman) That makes the point quite clear, but I think we might proceed with the questions

14,097 (Sir Maneckji Dadabhai) As I read your paragraph 2 in conjunction with what is stated in paragraph 8, I came to the conclusion that the difficulty which your Committee of Exchange Banks had in not recommending gold currency was mainly due to the reserves not being wholly adequate for the purpose, but your evidence, as I understand it, in answer to the Chairman as well as in answer to Sir Purshotandas Thakurdas, leads me to a different conclusion, and that is that you now, on behalf of the British Exchange Banks, withdraw altogether the recommendation regarding a gold currency—No

14,098 You do not?—No

14,099 You are still in favour of gold currency?—No

14,100 Then you withdraw your recommendation?—I am not in favour of gold currency for India. There is nothing in this letter which says that I am in favour of gold currency for India

14,101 I may be wrong, but as I read paragraph 8 I understand it is clear that you do recommend it, because it is stated "It is with this end in view"—that is, the end in view of the introduction of gold currency—Well, I think it was in the minds of the banks that it was very desirable to accumulate a gold reserve, anyhow against a note issue. It is a sound thing to do. It may have been in the minds of some of them that ultimately a gold currency might be feasible for India without being too expensive, but anyhow, there could be no harm in accumulating a gold reserve against the notes issued

14,102 Let me point out in paragraph 8 of the memorandum you say "It is with this end in view, therefore, that we advocate a policy which would increase the gold reserves so that when the day comes (it may be ten or more years hence) India's gold position will have been steadily improving all the time, which will enable her to tackle the problem when it does come up again upon a surer basis"—Well, ultimately it might come up, but we are only dealing with the present

14,103 Yes, but you think that ultimately it will come?—It might come

14,104 It might come?—Yes

14,105 Do you recommend it or not, ultimately?—I could not say what I would recommend 10 or 15 years hence

14,106 You might recommend it 10 or 15 years hence?—No, I could not say what I would recommend 10 or 15 years hence. It must depend on conditions then

14,107 In the meanwhile, do you recommend the establishment of a Mint in India for the purpose of coining gold coin?—There is a Mint established now for coining gold coins

14,108 But where bullion can be presented and exchanged for gold coins which may be coined there. Would you recommend that during the interregnum?—For currency purposes

14,109 For currency purposes, so that you could bring bullion and in exchange get gold coins, sovereigns or Indian mohurs, and have that as a voluntary or optional medium of currency? Have you any objection to that?—It would be rather a compli-

cated scheme. You would have the unlimited legal tender of the rupee at the same time?

14,110 Yes—But you could not have the two currencies running together

14,111 You say there would be two currencies running together?—Well, there would be the unlimited legal tender of the rupee, and you would also have the sovereign as currency, or the gold mohur

14,112 You could take bullion and get sovereigns in exchange?—I do not think you could have two currencies running together

14,113 You say those two currencies cannot run together?—No one would drive the other out

14,114 May I draw your attention to the fact that the Babington-Smith Committee strongly supported this recommendation?—Well, that may be so, but the Babington-Smith Committee recommended a lot of things which have proved very troublesome

14,115 Also the Fowler Committee made that recommendation—Well, it is a well known law that if you have two currencies running together the base one drives the other out. They would buy up all the sovereigns or gold mohurs with rupees

14,116 Before 1914 there were two currencies running simultaneously in India. Gold and sovereigns were being given by the Treasury in exchange for rupees—Well, they did not last. The rupees drove them out

14,117 They lasted a number of years—But the rupees drove them out

14,118 It lasted a number of years till the mohur came in and intercepted it, and there was nothing to prevent it progressing until the war broke out in Europe—There is the ordinary law that the inferior currency will drive the superior one out

14,119 You do not think this is a feasible plan for India as a temporary measure?—No

14,120 As satisfying the aspirations of the people to have free coinage in India going on side by side with the present arrangement?—No

14,121 You do not think so?—No, I do not think it is feasible

14,122 You are aware that in India there are large stocks of gold?—Yes

14,123 And that they are lying dormant?—Yes

14,124 It is a most uneconomic method of keeping that quantity of gold in the country?—Yes

14,125 Would not it lead to the prosperity of the country if a method were devised for making a more beneficial use of this locked up gold?—Undoubtedly

14,126 What method would you suggest?—Well, that has been a problem that has not been before many people connected with India for a very long time. They might, for example, sell their gold and invest it in industrial concerns. They might even buy Government securities with it

14,127 But not make gold coins?—No

14,128 You said in answer to the Chairman that the recent method of purchasing sterling in India is not good, and you recommended the elimination of this broker altogether?—Yes

14,129 Over and above the recommendation that the broker should be eliminated, have you any other complaint against that method?—I have no complaint against remittances being arranged to India if the Indian people want to have them. I have no complaint against it

14,130 If that method has worked well, you have no objection to retaining it?—No

14,131 Can you advise this Commission as to the extent of the gold reserve you would accumulate?—Against the currency issued?

14,132 Yes—The more they get the better, I should think

14,133 But can you recommend some figure or can you prescribe some limit?—Well, I think the ideal reserve, so long as the rupee is currency in India would be to have 50 per cent in rupees, 25 per cent in gold, and 25 per cent in sterling securities

14,134 (Sir Henry Strakosck) In the course of the evidence you gave this morning you said that you wanted to keep an open mind regarding the establish-

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[Continued]

ment of a central bank until you know what the constitution of that central bank is to be. May I put to you very broadly the main provisions of a central bank constitution with a view to having your opinion as to whether you would regard such a central bank as a useful organisation in India? I am merely giving you the main conditions of bank charters in other countries. The central bank should have the sole right of note issue, which is regulated by provisions which lay down a minimum reserve in gold and other securities. The bank is to act as the bank of the Government and of the other banks. The business of the bank is to be restricted in the main in discounting true commercial bills drawn against goods, and making advances on them. The charter usually imposes the condition that the bank is not to allow any interest on current and deposit accounts. These are the main provisions of the bank charter in most countries. Would you regard a bank established with a charter of that character as a desirable thing to have in India?—Well, it is very difficult to answer a question of that sort on short notice.

14,135 I will just say this that a very important body of evidence tendered to us was in favour of the establishment of a central bank and the handing over of the management of the currency to such a bank?—Well, I am perfectly convinced that if the note issue is to be maintained and to grow it will have to have the guarantee of the Government of India. It is growing now, but the people there are not educated up to the central banks.

14,136 You attach no importance to the opinion which has been tendered to us?—I do not say that.

14,137 One moment, let me finish my sentence. Would you agree with the opinion that has been tendered to this Commission that the advantage of handing over the management of the currency to a real central bank is that you would be centralising the currency and banking reserves, and be eradicating wide fluctuations in money rates and divergent policies in regard to currency by the currency and banking by the banking authorities?—You understand that India is a very different proposition from a central bank in South Africa or on the Continent of Europe.

14,138 Why does it differ?—The conditions there are so very different.

14,139 Would you mind saying exactly where it differs?—Well, for one thing, the people of India are not as yet educated up to the ideas of western banking—at any rate, the great mass of the people are not. There is only a very minute fraction of the people who know anything about banking.

14,140 Do you suggest that the bankers in India do not know anything about banking for the Central Bank would be mainly a bankers' bank?—Not the bankers, but I am talking about the mass of the people in India. They know very little about the methods of western banking. As it is at present, as Sir Purushotamdas Thakurdas said, the mass of the internal trade in India is now being done by Indian bankers, shroffs, and others. They finance the trade of India down to the coast.

14,141 Would you not regard it as an advantage to the credit organisation of India if those native bankers were in a position to take refuge by rediscounting with a central bank in times of crisis?—They do that at the present time, to a certain extent with the Imperial Bank.

14,142 To what extent can the Imperial Bank rediscount if it has no right of note issue?—They can only discount to a certain percentage of their deposits and their resources.

14,143 But if it had the right of note issue and if one of the conditions of note issue was that apart from a certain percentage of gold it could put into its issue department local bills would not that strengthen it?—What sort of bills? It is very difficult in India to discriminate between bills which actually represent transactions in produce or commodities, and bills which are simply accommodation bills.

14,143A But so it is in every other country—Not to the same extent in India—much more difficult in India.

14,141 May I put it in a different way? The exchange banks are largely concerned in financing the exports of the country?—Yes.

14,145 And internal trade credits are really a minor part of your business?—Oh, nothing practically.

14,146 Therefore, if there were to arise a crisis you would always be able to take refuge at the Bank of England by rediscounting here?—There is a discount market in London, not necessarily the Bank of England.

14,147 Ultimately the Bank of England?—Yes.

14,148 Let us suppose you were to do local business and you had no possibility of recourse to the Bank of England, would you regard your bank as being in as favourable a position without a central bank as with a central bank in India?—You mean we might take refuge with the central bank in India in the same way as we would do with the discount market in London?

14,149 Exactly—Well, I do not see the necessity for it.

14,150 But supposing that you did all your business in India and you gave credit in India to foster production in India, and on the one hand you had a central bank to which you could go in times of stress and stringency to rediscount your bills?—Yes.

14,151 And on the other hand, there is no such bank, or a bank whose powers of rediscounting are very limited?—But we do not require that.

14,152 Because you do not do the true Indian business?—No, there is the machinery for that business already in India, the machinery being the native banker.

14,153 How does he handle things if there is a stringency?—I do not know how many native bankers there are in India, but there must be thousands—many thousands—who have their own resources. Is not that so?

14,151 And they finance the crops and produce of the country up to the extent of their own resources?—Whenever they exhaust those they can go to the Imperial Bank where they will get a considerable amount of credit.

14,153 But you have agreed that the Imperial Bank's power of giving credit is severely limited by the deposits it gets?—It is limited to the extent of its resources, no doubt.

14,156 That is right.—And I do not know that it is necessary to increase them. I think the Imperial Bank with its resources, and its increasing reserves will be sufficient to finance the trade of India satisfactorily.

14,157 On the whole therefore, may I take it you would be against the establishment of a central bank?—Well, I have not had time to think it over. I would not like to say that I am against it because it is a new proposition to me.

14,153 Has not it been put before your Association?—No, it was never mentioned at the Association, and I should like to add that anything I have said in connection with that central bank is my own personal view, because it was not mentioned by the Association.

14,159 (Sir Purushotamdas Thakurdas) You said just now that the masses of India were illiterate?—No, I did not use that word.

14,160 Well, if you like to substitute that they have not had enough education, or whatever word you like to use, and therefore it may be a question whether they would have confidence in the note issue of the Imperial Bank. May I ask if there was a note issued by a Central Bank or by the Imperial Bank constituted into a Central Bank would such notes have the confidence of the exchange banks for which you are speaking?—Well I think so.

14,161 A banker who appeared before this Commission who is interested in developing banking in India not an exchange banker, mentioned that what

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[Continued]

be called the monopolist position of the Imperial Bank ought to prevent the Imperial Bank from having the note issue?—I do not follow you

14,162 He said that the monopoly of the Imperial Bank with regard to Government balances and the fact of its competing with banks in the inland centres by opening branches should be considered as a bar to the Imperial Bank being given the note issue. Would you agree with that?—No

14,163 In his written statement he makes this remark, which I will just read as it is only one sentence "One restriction placed by the Act—that is the Imperial Bank Act—is on the Bank's function is that the Bank cannot engage in foreign exchange banking business so that the exchange banks working in India are relieved from the uneconomic competition of the bank." Would the exchange bankers have any objection if the Imperial Bank, as a central bank, were allowed to do exchange business?—I do not think they would like it

14,164 Because of the increased competition, I presume?—No doubt

14,165 But increased competition up to a certain point is to the benefit of the community sometimes, is it not?—Sometimes there can be too much of it

14,166 With regard to the numerous Indian shroffs and moneylenders who largely finance the Indian crops, this class of banker have their own resources only up to a certain point?—That is what I have said

14,167 But when these get exhausted in a busy season even this class have to fall back on the Imperial Bank for credit, have they?—Yes

14,168 Therefore the larger the resources of the Central Bank the better for the turnover of the Indian petty banker also?—Yes, if there is an increased demand for money for financing crops, but I think up to now—we are talking of up to now—the resources

of these native bankers plus the resources of the Imperial Bank or the other banks, have been sufficient

14,169 Let me remind you of what happened in 1924, when the Imperial Bank rate remained at 8 or 9 per cent for six months of the year. From January to June the Imperial Bank rate remained at between 8 or 9 per cent for that 6 months?—That was largely owing to the instability of the exchange. It was largely due to that. This year there has been just as much finance required but we have not had it higher than a 6 per cent bank rate. Why? Because the exchange has become stabilised

14,170 But if the two balances which Sir Henry Strakosch referred to were amalgamated there would be nothing wrong in it, and it would give the country a large balance in case of need?—Which two balances?

14,171 The Government balance, and the Bank balance?—Of course, the Government do keep their balances largely with the Imperial Bank now

14,172 (Sir Henry Strakosch) I said the currency and the banking position

14,173 (Sir Purshotamdas Thakurdas) the currency and banking position?—Even if there was a central bank they could only issue notes against gold I suppose

14,174 There would be no objection to that. That would simply make more money available to the country, if trade needed it?—But that is what the Imperial Bank or the Government could do at present. By tendering gold they would issue the equivalent in Indian currency

14,175 Do you see anything unsound in the proposition that Sir Henry Strakosch has put to you?—I see nothing unsound in it at all

14,176 (Chairman) There is nothing you would like to amplify?—No. I hope I have made myself clear

14,177 (Chairman) We are very much obliged to you for your assistance to-day

(The witness withdrew)

## FORTY-THIRD DAY.

Friday, 16th April, 1926.

### PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., B.S.O., D.S.O., M.P. (Chairman)

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., I.C.V.O.

Sir NORCOT HASTINGS YEKES WARE, K.C.I.F.

Sir FREDERICK MANT, K.C.I.E., C.S.I.

Sir MANFRED BYRANET DADABHOY, K.C.I.E.

Sir HENRY STRAKOSCH, K.B.E.

Sir ALEXANDER ROBERTSON MURRAY, C.B.E.

Sir PURSHOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.

Professor JAHANGIER COOVENJEE COYAJEE

Mr WILLIAM PRESTON

Mr G. H. BAXTER } (Secretaries)  
Mr A. ATANGAR }

LORD BRADBURY OF WINSTON, G.C.B., called and examined

14,178 (Chairman) You were at one time Joint Permanent Secretary of the Treasury and principal British representative on the Reparations Commission?—Yes

14,179 You do not at present hold any official position?—No. Of course, I am Chairman of the Food Council, but that is an honorary position

14,180 You have been kind enough to come and assist us this morning and there have been submitted to you, I think some documents\* which have

been circulated to the witnesses in order to put them in possession of some of the proposals which are under consideration and also certain questions which would indicate the matters which we are particularly concerned to enquire into at this stage in our deliberations. I understand you would rather prefer that we should ask you questions which occur to us than to submit any memorandum on your part?—Yes. I received the very interesting documents you sent to me. I did not attempt

\* See Appendix 30



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LORD BRADLEY OF WINSTON CHURCHILL

[Continued]

to reply to what perhaps I may be permitted to call the somewhat formidable questionnaire, partly because I can make no pretence to be an expert as regards Indian conditions. Of course, I do know something about currency from the world point of view and from the British point of view, and I thought that my opinions might be of interest, and possibly of value on the more general question you had to consider, but at the same time I should not attempt to give any replies pretending to any authority in regard to the special Indian aspects of the question.

14181 I think we thoroughly understand that our questions are directed with more advantage to the general aspects of our reference rather than to the more particular aspects requiring expert knowledge of Indian conditions. Can you assist us, in the first place by telling us how, in your judgment, you would describe on general lines the British system of currency and its basis?—The traditional British system of currency since the restoration of gold payments after the Franco-British war at the beginning of the 19th century and as established by the Bank Act, is the standard of a free coinage of gold and free convertibility of notes—what may be called a simple gold standard and gold currency. That basis of course was temporarily abandoned during the late war, and we have now gone back to a system which is practically identical with the system which was completed by the Bank Act of 1844, except that for the time being, at any rate, we have not free internal circulation of gold. At present the Bank of England note, instead of being payable in gold coin as under normal conditions is by law payable in bullion. The same is the position as regards the Treasury note.

14182 Then what is the legal basis for the gold value of the pound sterling?—The legal basis at the present moment for the gold value of the pound sterling is that the Bank of England is by law compelled to give legal tender money in exchange for gold bullion, and to give gold bullion in exchange for legal tender money at a fixed ratio—at a fixed price.

14183 It is that which constitutes the fixed relation between the official paper currency and gold value?—That is so.

14184 Can anybody get gold coins for notes?—In practice, yes. The Bank of England is prepared to give gold in exchange for notes, I understand as a matter of fact but at the present moment there is no legal obligation upon the Bank to do so.

14185 We all know that practically it is not done?—No. At the present time there is very little demand for gold for internal circulation. The community has become so used to the £1 note that perhaps it would hardly be too much to say that it prefers it to the sovereign.

14186 Now comes a question which you may have some difficulty in replying to, and which I may have a difficulty in framing, but let me put it in this way. What would you consider to be the probabilities as regards the public policy of the country in relation to the return to gold circulation?—I should think it will ultimately be a matter of popular taste. From any serious economic or financial aspect I see no advantage whatever in an internal gold circulation. At the same time if the community, for its own convenience likes to circulate gold coins, and if the conditions of the gold market of the world and also the internal financial conditions of the country are such that what I may perhaps call rather an expensive luxury can be tolerated without serious inconvenience I should be wholly in favour of the restoration of the gold circulation to that extent—to the extent to which the taste of the community and the preferences of the community may desire. From any serious business or economic point of view I attach no importance whatsoever to the question.

14187 It would be useful for illustrative purposes if you could tell us whether it is possible to form any estimate as to what gold circulation would cost this country now. Have you ever been able to arrive at

any figure?—At a very rough shot, I suppose, if the custom of using gold for all the transactions below £5 and a large number of the transactions over £5 which are not carried out by means of cheques became universal again, probably £100,000,000 sterling of gold would be absorbed into circulation. The cost of it, therefore, can be put to the country as the interest on £100,000,000 cost of gold coin. That would be what I should call the national cost of it, plus the cost of the wear and tear of the gold coinage and minus the cost of the notes displaced.

14188 Under existing credit conditions it would be something between £4,750,000 and £5,000,000 per annum?—Yes, I should put it somewhere in that neighbourhood.

14189 Let me turn to another matter on which your assistance would be of great value. I want to ask you in general, on the question of the reserves of a central bank, as to the best way of constituting the reserves as regards the relation between their liabilities and assets. Various methods are in use. I suppose the two principal are (1) to have a fiduciary issue of a fixed amount, and (2) to have a fiduciary issue of a proportion of the total note issue, with some provision as to expansion in case of need. Could you give us any expression of your opinion as to the relative merits of those methods, or of any other method of constituting reserves?—I find it rather difficult to give general opinion. The tendency recently has undoubtedly been to depart from what I may call the traditional British method of a fixed fiduciary issue and a marginal issue covered £ for £ by gold in favour of the method of requiring that there should always be gold cover for a certain percentage of the total issue. The new German currency since the introduction of the Dawes plan is based on the percentage method. I have a very strong opinion that having regard to the special position of Great Britain in regard to international trade that the maintenance of the traditional method for this country is essential. I should be very sorry indeed to see the percentage method adopted here. Whether in other conditions such as those, for instance, operative in the United States of America in particular, the percentage method is not a better method I should not be prepared to say. I think it may be. But I do think it essential if London is again to become a free market for gold, and also if the £ sterling is to remain, as it is the sheet anchor, so to speak, for other currencies, the method of fixing your reserve not according to your total issue, but according to the fluctuations of your total issue, giving full gold cover for the fluctuations is the right method for this country, but I have that opinion very largely on the special conditions of this country rather than on general currency principles. I hope I have made it clear.

14190 I am not to put to you anything which, as you said, requires very detailed knowledge of Indian conditions, but with your general knowledge of Indian conditions could you relate what you have said in any way to India?—I should say, as regards India, a good deal would depend on the general currency policy adopted. If India wishes, as regards her currency system, to revert to the pre-war system, in which the rupee was closely linked to the £ sterling, then I think probably such gold cover as India would require might quite reasonably be a percentage gold cover. If, on the other hand, India desires to have an entirely independent standard of its own, and in no way to be dependent on the £ sterling, then I should be disposed to think, with the special conditions of India (though quite different from our own special conditions), more particularly having regard to the very large fluctuations to which for economic reasons Indian currency is subject that the wisest course for India as for Great Britain though for quite different reasons, would be to adopt the principle of a fixed fiduciary circulation—a certain fixed gold cover against that fiduciary circulation, and then a £ for £ cover or rupee for rupee cover for any excess over that fixed

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margin. That would be my *prima facie* view, though as I say, I cannot pretend to any *very special* knowledge of Indian conditions.

14191 We quite follow that your opinion is that if India were to have a sterling exchange standard she should have a percentage cover, but if she had a gold standard of some form she should have a fixed fiduciary circulation?—Certainly that would be my general view.

14192 What would be the reason which would lead you to that different course according to the different conditions?—My own view is that what I may call the fixed fiduciary principle gives you a more certain automatic reaction under conditions both of expansion and contraction. With a percentage cover, expansion tends to become too easy and contraction may prove too difficult. Therefore, if you have a system under which you alone are responsible, so to speak for the maintenance of your currency it is very much better to have a system capable of rigid application. If on the other hand, you have not what I may perhaps call—I do not use the word in any derogatory sense—a 'parasitic' standard, that is to say a standard for which you are not primarily responsible to the country which owns the standard—that is to say, an exchange standard—then, after all, if anything really serious happens it is in the other man's funeral before it is yours—I mean, he is really responsible for maintaining your standard.

14193 In your view the form of gold standard under Indian conditions being more difficult to maintain, involving a greater element of risk, it requires a more powerful engine to support it.—It really amounts to that but I should not put my point quite in that way. Roughly speaking, there are two possible lines for a country desiring a stable currency to take. It can say either: We are disposed to make the arrangement by which our currency shall be maintained in relation to what has hitherto been the most stable value in the world, the value of gold. We are not going to trouble ourselves about what anybody else does but what we are going to do is to take care that our currency shall have the same value as gold. That is a possible policy. If you adopt that policy you naturally take the responsibility on your own currency of maintaining a gold standard and you are very much concerned with the movements of gold and the price of gold. The other possible policy is to say: We are perfectly satisfied with the general currency policy say of Great Britain or of the United States of America. We are perfectly sure that Great Britain will not allow the £ sterling to get into trouble. We are perfectly sure that the United States of America will not let the dollar get into trouble. Therefore, we will take such steps as may be necessary to secure that our currency shall have a stable value in relation to the £ sterling or the dollar. If you adopt that policy logically you need not trouble yourself about gold at all. The relation of the £ sterling or the dollar, as the case may be, to gold is a matter for the Government of Great Britain or the United States. You simply lay your plans on the basis of keeping your currency stable in relation to the particular foreign unit of value which you adopt for the purpose. Then the point on which you must concentrate is to secure that if you want to contract your currency you always have at your disposal supplies of pounds sterling or dollars as the case may be to buy up your currency, and when you want to expand your currency that you accumulate reserves of pound sterling or dollars with a view to the period of contraction when it comes. But you cease to be interested in gold unless you think as a large country should properly think that having made use of a particular foreign currency that you owe a certain debt to the country whose currency you are making use of to assist them in maintaining what is then a common interest the stability of the basic currency in relation to gold.

14194 I gather, in your opinion that were a country to adopt what you call in no derogatory sense a 'parasitic' standard say a sterling exchange standard it is still a matter for that country to consider as to whether or not to bear a hand in contributing towards the obligation to maintain the gold supply upon which the currency of both countries is based?—Yes I think so for two reasons. The first reason is this: If I might follow the 'parasitic' metaphor perhaps it makes it clearer. The 'parasitic' naturally will wish to feed on a healthy animal. Anything which promotes the health of its host is of course in its own interest as well as in the interest of its host.

14195 I suppose there would be other minor considerations which would come into account in considering whether it was not necessary to keep some gold in reserve, even under a pure exchange standard, for instance, the provision of a buffer between the immediate needs of the country and the security market, in order to prevent too severe an impact upon the security market by the sale of securities?—Yes. With an exchange standard of course, it is a very important matter that your reserves held in currency on which your own currency depends should be sufficiently liquid, but that liquidity can be secured without an absolute gold reserve—I mean, the deposits at call in the countries concerned and a good portfolio of bills of exchange payable in the basic currency, for the purpose of immediate needs are as useful as metallic reserves. On the other hand if actual convertibility of the note into gold is desired local reserves of gold would be necessary to maintain that convertibility. That is rather a separate point, but from the standard point of view theoretically, I think, not an ounce of gold is required.

14196 You have been discussing the relative bearings of the gold standard and an exchange standard, for instance, a sterling exchange standard. In your view, does a gold standard necessarily imply gold currency?—A gold standard, certainly not.

14197 I suppose we might refer to the present English arrangement as an example of a gold standard without a gold currency?—For all substantial purposes it is. There are a few gold coins still in circulation, but the total amount is negligible.

14198 At present there is no legal internal convertibility?—That is so.

14199 You have been talking of those two possible standards, the sterling exchange standard and the gold standard without a gold currency for the moment rather from a general point of view. Could you deal at all with the relative advantages of those two standards for India?—I should think myself that the pre-war method, which was the sterling exchange standard, had proved by experience to be a method admirably suited to the needs of India in normal times. Of course, there were certain influences arising out of the war that had very serious reactions upon Indian currency, but whether those reactions were the result of the fact that the sterling exchange standard, rather than the gold standard had been adopted is a question upon which I should not like to dogmatise.

14200 Might I ask you to repeat the last part of that answer?—I should not like to dogmatise as to whether the troubles that arose in connection with Indian currency as a result of the war were due in any large measure to the fact that the pre-war standard was a sterling exchange standard rather than a gold standard. I think it might be possible to argue that if India had had a complete gold standard before the war she would have suffered less from currency troubles than she did. I think it is possible to argue that but I do not think it is absolutely established. As I say I cannot really pretend to have that detailed information of Indian conditions which would make my opinion of much value.

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14,201 If I might ask you to speak for a moment from the point of view of one with a unique knowledge of the British currency system and the systems of Europe, what do you think would be the general interests of the currency systems of the civilised world as between those two standards for India at the present time I mean, what would be the bearing, in relation to the general currency systems of the world, of the adoption of either (a) a sterling exchange standard, or (b) a gold standard (without, for the present, gold currency)?—Well, the adoption of an independent gold standard by India, even without gold currency, and of course to a very much larger extent with a gold currency, would necessarily mean purchases by India of a considerable amount of gold for reserve purposes, that is to say, a certain amount of gold would have to be taken by India from the world market and locked up. From the Indian point of view the cost is the interest on that amount of gold. From the general world point of view it means that other countries and the yearly production of gold of the world have to provide the amount of those reserves. Putting the amount required at the figure that was in the papers which were sent to me—that was a suggestion for a gold circulation of £100,000,000 sterling.

14,202 That is on the assumption that there is to be the introduction of gold circulation?—Could you give me a figure which you have in mind for the purpose of argument for the gold standard without the introduction of gold circulation? What addition do you think one should contemplate to the Indian gold reserve in those circumstances? I only just went a figure for the purposes of discussion.

14,203 The best figure I can give you for the purposes of discussion would be that for the establishment of a gold standard without a gold circulation there would be required 25 to 30 crores within a period of, say, 10 years?—Would you mind just translating that into sterling, because my mind does not move very easily in crores?

14,204 A crore is three-quarters of a million, so that it is three-quarters of 30,000,000 crores as a maximum?—That would be somewhere between £20,000,000 to £25,000,000?

14,205 Yes?—Well, having regard to the present distribution of gold in the world I do not think the taking off the market, so to speak, of £20,000,000 to £25,000,000 would have any very serious effect. For a good many years to come the gold supplies of the world will certainly be surplus to the currency requirements on the existing level of prices. If I may put it in another way, I might put it like this. If the United States Government (the United States being at the moment a very large holder of gold) saw fit to allow the American gold reserves to exercise their normal and traditional effect on the creation of credit, there certainly would be a very considerable rise in dollar prices. That rise in dollar prices would be reflected in a general rise in all world prices. The liberation, so to speak, of the United States gold reserves would result in a new world price equilibrium considerably above the present world price level. For various reasons such a general world rise in prices does not suit the United States of America. Therefore the currency authorities of the United States have with very great skill taken measures to prevent the large accumulation of gold which exists in America from having its full effect on American prices. There is a certain amount of gold, a very considerable amount of gold, in the United States, which for credit purposes is sterilised. The United States would be very naturally willing to part with a considerable amount of that gold provided they could part with it without a general rise of American prices, which would be reflected in world prices, and so would not be in the interests of the United States, because a general rise of prices would, of course, diminish the advantage which holds as a creditor nation. I take it, then, that the United States would welcome the absorption of a considerable amount of gold in the currency reserves of other

countries and give facilities for its release. To part with £25,000,000 or even £100,000,000 of gold to India would, from the United States point of view, be an extremely good bargain. It would be useless gold got rid of. I think even £100,000,000 could easily be acquired if India thought it worth her while to buy it for currency purposes without any real material effect on the currency conditions of the world.

14,206 We may take it generally that, so your view the central banks of Europe and of the United States would not be sorry to see India helping to carry the world's gold reserves?—Well, my own view is at the present moment that the main burden of carrying the world's gold reserves rests on the shoulders of the United States of America, and as that country seems in as good a position to be able to afford it as any other country, I am quite content that it should stay there.

14,207 It is a serious matter for India to consider whether it should interfere with so popular an arrangement for other countries?—From the point of view of other countries I do not think it is really very material whether the United States transfers £100,000,000 of gold to India or keeps it itself. For a good many years to come, if my theory is correct the value of gold will have to be maintained by deliberate action on the part of the United States of America, that is to say, the United States will have to bear loss of interest on the surplus gold of the world, except to the extent to which other countries may be willing to accept part of that loss for the purposes of obtaining a gold backing to their currency. One cannot speak statistically in regard to this matter. It seems probable that from the course of events since the Dawes plan came into operation that Germany will absorb for the purpose of reserve a much larger amount of gold than at one time I thought was at all likely. That will relieve the burden on the United States. If India does the same that will be a further relief, and a point will ultimately come at which the American gold reserves are not more than sufficient to maintain the existing price level and the normal basis of credit in America. When you get to that stage, then the world gold market in the old sense will have been restored and prices will depend largely on the amount of new gold coming from production, but so far as I can see it will be a good many years before the visible supply of gold has really its normal effect on world prices. I think there is that large cushion of unnecessary accumulated gold in America which will take many years to absorb though the pace at which it will be absorbed depends largely on the currency policy of other countries. As I said, Germany is absorbing a good deal more than I expected. If India absorbs another pocket, that will accelerate the time at which the free gold market in the old sense is restored and then there may be all sorts of events in Russia and China which one cannot foresee. It is not a subject on which prophecy is at all safe. All I should be prepared to say is that at present there is a very large margin of gold in the United States of America which will have to be absorbed before the visible supply of gold in the world again has any appreciable effect on the general price level. I hope I have made my view clear.

14,208 Very clear. As regards the surplus supply in the United States is it possible to make any calculation as to the period within which the normal expansion of population and trade in the United States would absorb that surplus supply?—Well, I should much prefer that question should be put to a professional statistician. I should not like to hazard a guess myself.

14,209 We have had some statistical information put before us as to the future relation between the world's supply of and the world's demand for gold for monetary purposes. Is that a matter which I should ask you about or not?—I certainly should

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not be prepared to speak dogmatically about it. Indeed I am not at all sure that it is a very profitable subject for speculation because so much depends on the currency policy adopted by various countries. Under modern currency conditions the real demand for gold is a demand for reserves rather than a demand for circulation. The volume of the reserves will depend very largely on questions of policy. This very question you are discussing as to whether India should take £100,000,000 sterling or abstain from taking £100,000,000 sterling is an example. In a free market apart from the considerations to which I have been calling your attention in the case of the United States if you had an absolutely free market for gold and no surplus gold locked up as it is in America of course a change in demand by £100,000,000 would make an enormous difference to world prices. The thing depends very much on decisions on policy by countries like India and Germany and ultimately Russia and China so that I doubt whether it is possible for anyone even one possessing far greater statistical knowledge than I have, to speak with anything approaching dogmatism.

14210 I understand you go so far as to say that a demand for say £100,000,000 of gold for India would be a substantial, perhaps even a decisive factor in determining the relation between the supply and demand of gold and the effect of that relation upon general prices?—Yes subject to this that so far as I can judge if such a demand were made within the next few years it could be supplied and would be supplied from the surplus reserves of the United States without any serious disturbance of world prices owing to the special conditions existing in the post-war world. If the pre-existing distribution of gold were normal and the credit systems of the world generally were based on the supplies of gold in the respective countries then I should regard such a demand as a very disturbing factor indeed. The reason I do not regard it as a disturbing factor at the present moment is that there is in my view this surplus in the United States which could be obtained so to speak, by a special arrangement.

14211 In that connection you have had put before you that plan which you have already referred to for the establishment of a gold circulation in India by obtaining the credits for further gold in London and in New York and for a concurrent sale of silver. Would you be prepared to express an opinion as to the effect of the proposals for the sale of silver upon the countries which have silver interests and in particular upon the United States?—Well one knows generally that the silver market in the past has been rather a narrow market and I should imagine that large sales of silver would certainly lead to a general fall in the gold value of silver but that is a subject on which the bullion market could speak with very much greater authority than I can. I can only express a general opinion. I should think that having regard to the world demand for silver to dispose of a large amount of currency silver would be a very difficult proposition.

14212 If any proposal for raising credits for gold in the United States were coupled with proposals for the sale of silver that would be an undoubted circumstance which one might expect to have reactions upon the attitude of American opinion towards such a proposal?—I should not like to say from my own knowledge how far America is now interested in the value of silver. Obviously American interest in the value of silver is very much less than it was 20 or 30 years ago. At the same time I think America would not look with favour to a serious depression of the silver market.

14213 What circumstances have tended to the reduction of the American interest in silver?—Well the fact from the currency point of view that silver has ceased to be really a matter of any importance and the very large Government holdings of silver have been substantially reduced.

14214 There is a question which I should inter-  
polates here which I meant to ask you before in connection with the bank that is as regards the constitution of a bank of issue which is in control of currency. What in your opinion are the relative merits of the Continental system of the combination of the banking and issue departments and the British system of separate banking and issue departments?—I think the answer to that question really depends on the answer I gave to a question you put to me before. With the percentage cover of course, it seems to me the only practical arrangement is the single department—I mean a banking department which is also an issue department. On the other hand with the traditional English system of the fixed fiduciary issue and pound for pound cover above it the separate issue department is really I think, the accounting arrangement which reflects that system most intelligibly. I do not myself attach any very serious practical importance to the separate departments but I think with a pound for pound cover the arrangement for separate issue department which keeps currency so to speak in an entirely watertight compartment from banking is the normal natural and logical arrangement.

14215 Would you explain to us why it is difficult to have a separation of the departments if you have a percentage cover?—Well the amount of your gold reserve with your percentage cover depends from day to day in the precise amount of notes in the hands of the public. The operations of your issue department could not be determined except by the returns of your banking department. You would have to hear every evening from the banking department how many notes were in the hands of the banking department in order to arrive at the reserve which you had to keep in your issue department unless of course you treated your banking department for the purposes of your percentage cover as the public. If you did that then you would, no doubt be able to to arrange your accounts by the control of the amount of notes in the hands of your banking department as to do very much what you liked with your percentage cover so that that really would not be a practical arrangement. For the purposes of the percentage arrangement you must have your cover on the notes out of control of the central bank. That being so the whole operations of the central bank (both issue and banking) really become part of the same machine.

14216 Would not it be right to treat the notes issued by this issuing department to the banking department as the liability?—In that case the banking department by manipulating its banking reserve could if it thought necessary diminish a possible strain on the issuing department. I do not think the experiment of a separate issuing department with a percentage cover has in fact ever been tried. I cannot think of any case. The division between issuing department and banking department certainly as regards large countries is peculiar to Great Britain and I have always regarded it as a corollary so to speak to a fixed fiduciary issue.

14217 Is there any administrative impossibility in the banking department keeping the issuing department informed concurrently as to the total of the note issue?—None whatever as far as I know but I am not sure that a separate return of the banking and issuing departments in those circumstances or a separate account would serve any really useful purpose. The essence to my mind of the percentage cover system is to consolidate the whole of the currency action of the central bank. Indeed most of the advocates of the percentage cover arrangement the late Sir Edward Holton in particular always treated that as the great merit of the percentage cover system—he always combined the proposals for the percentage cover with the abolition of the separate issue department.

14218 Let me put a general question on this banking aspect. Under the Indian system hitherto the currency note issue and the control of the

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currency has been the function of the Government. The Government has been the currency authority. We have had in evidence a strong recommendation in favour of the transfer of the control of the note issue to a central bank. What, in your opinion, are the advantages to be gained by such a transfer, in general?—I am in favour of the complete management of the currency and complete responsibility for the currency, which is even more important than management being given to an authority independent of the Government in all countries, here as elsewhere, in normal times. I think that a very large part of the troubles which certain Continental countries have suffered in regard to currency would, in all human probability, have been avoided if they had had central banks with the same legal privileges which the Bank of England has in this country. On the other hand it is not possible entirely to divorce the currency from the Government in times of national emergency, or in times of war, for instance. Then the Government is bound to take control and in very serious credit crisis the Government has had perpetually to intervene even in this country. So that I should not class myself as an advocate of the theory that the Government should disinterested itself entirely from currency. Some of the advocates of the central bank system have gone almost to that length. But I do favour a system under which the Government should direct itself of what in the last resort is always a Government function, the control of the circulating medium to an independent body of experts, constituting a central bank, and tell them, "We are giving you a free hand to manage this affair, and it is your responsibility not to get into trouble." If they do get into trouble ultimately the Government will have to interfere.

14 219 As a specific advantage it is put to us, for instance that the concentration of the banking and currency reserves in a single hand conduces to efficiency and economy. Is that a substantial argument in your opinion?—Well that again, I think, depends on your currency system. With the purely automatic gold standard system which we had in this country before the war I think any kind of concentration of banking and currency reserves is a mistake. I am wholly in favour of the separation in those circumstances, of the issue department and the banking department as in the case of the Bank of England and I am wholly in favour of the currency reserve being maintained quite independently of the banking reserve.

14 220 That is a matter of accounting?—Well, in the case of the Bank of England you have a physical separation also.

14 221 But as a matter of administrative control and policy it is put to us that for the efficient serving of the financial interests of the country the control of policy as regards currency and credit ought necessarily to be in one hand, as the two matters are practically one?—The monetary policy—I mean the question of discount rate, and so on—is the lever by which the value of the standard is maintained. The lever must be operated at any rate, by a banking institution. It is not always completely controlled by the banking institution. The Government operations in the short money market necessarily have a very important effect on the supply of credit and sometimes a central bank cannot make its policy effective in the teeth of a particular Government policy. In those matters co-operation between the Government and the bank are essential in all cases.

14 222 If there be two levers the lever of the bank rate and the lever of control of currency it is put to us that those levers ought to be operated by one authority administering the policy from day to day with arrangements for co-ordination with the general Government policy. Does that appear to you as a substantial consideration?—Yes. I think it is if you are going to have a system in which there is any discretionary control of currency. The system which I advocate in normal times is a purely automatic

system of currency. I mean certain things have to be done with regard to the currency on the basis of ascertained figures. What may be called the control of currency as a discretionary matter does not exist at all. That, I think, is the wiser system.

14 223 That is, such a system as we have now in this country?—That I should say was perhaps rather the pre-war system. I think that is true of currency proper now.

14 224 As distinct from the bank rate?—Is distinct from the supply of bankers' money. The supply of bankers' money is a thing which, under present conditions is very much more a matter in the hands of the Bank of England than it was in the past. The very large holdings of the Bank of England in short-dated securities gives it an ultimate control of the money market very much greater than it had before the war.

14 225 Are you sufficiently acquainted with the existing constitution of the Indian currency reserve and the Indian gold standard reserve to express an opinion as to the policy which has been recommended to us of the concentration of those reserves into one?—No, I am afraid I have not sufficient detailed knowledge of that to express an opinion of any value?

14 226 I rather gathered you would be reluctant to answer our question as to the factors in Indian conditions which make it undesirable for an introduction there of actual gold in circulation.—Yes, I do not think any opinion I could express on that would have any real value because I am quite unacquainted with India.

14 227 Is it possible to express any general opinion, apart from the circumstances of a particular case, on the assumption that you have a percentage reserve as to the minimum percentage of gold securities which it is necessary and prudent to keep against the obligations of the currency authority?—I think that is the only thing that can be ascertained by very long experience. I think prudence requires that with any new system you should place your percentage in the first instance very high indeed so as to be prepared for any possible contingency. Then, as experience has been gained, you may be able to reduce it without danger, but it depends so much on the fluctuations of internal demand if you have gold currency, and also on the rapidity with which international conditions may change. One knows that India's internal trade is very largely influenced by the monsoons, and that it is subject to very violent fluctuations. The volume of external trade is liable to very extraordinary fluctuations as between one year and another and therefore I think it is perfectly clear that with a full gold standard it would be prudent that India should keep a percentage of reserve on the percentage system very much higher than would be necessary, say, for a country situated like Germany or France. I do not take Great Britain because Great Britain has certain international obligations which arise from the fact that the £ sterling is the basis of currency for other countries as well as Great Britain which makes the position wholly exceptional. I should have said that a percentage reserve which would be sufficient for an old country in Europe would certainly be insufficient for an independent gold standard in a country like India.

14 228 Can you give any arithmetical expression to the difference which you think it would be necessary to make in view of the special circumstances of India?—No, I think it is extremely doubtful. With all these currencies I suppose in establishing a new system one would try to aim at something not less than 40 per cent. or from 40 per cent. to 60 per cent. and reduce it as opportunity offered afterwards.

14 229 That is with countries which have had a gold standard?—No. After all these percentages are largely conventional. I do not think there is any particular scientific value in a particular percentage. Indeed one object of your gold cover is to create a feeling of confidence. Therefore, you must choose a

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figure which will carry confidence to people's minds. If you are embarking on a new experiment, it is well to put the figure rather high.

14 230 (Sir Henry Strakosch) With reference to the practice in this country at the present moment I believe you mentioned that the Bank of England, without being legally compelled to give sovereigns would give sovereigns if demanded. Is that in fact the case?—I have never tried.

14 231 Is it not rather that the Bank of England is prepared to give sovereigns for export but not for internal use?—I do not know. I think that question ought really to be put to the representative of the Bank of England. Anything I said would be in the nature of hearsay evidence.

14 232 I rather understand that in the case to judge from returns which are regularly made by the Bank of England where they state that so many sovereigns have been handed out for shipment to Singapore or elsewhere?—I think the position is this. The Bank of England is bound to provide gold under the new law in exchange for notes. It is not bound to provide sovereigns. But if a person who desires gold in exchange for notes finds it convenient to take sovereigns, and the Bank of England finds it convenient to part with sovereigns of course the Bank of England will give that person sovereigns instead of bullion, but I do not think that the Bank accepts a practical—it is certainly not under a legal—obligation to provide sovereigns even for export.

14 233 Then with reference to the merits of a percentage gold cover system or the fixed fiduciary value system that is to say the merits of the Continental or Federal Reserve system and the British system you said that for this country the fixed fiduciary issue system is the preferable one but is it not a fact that this system is far less elastic than the percentage cover system?—Well, that would embark us on a rather long discussion. Of course elasticity or inelasticity depends not so much on the actual currency arrangements as on the credit arrangements immediately behind it. The effect of an export of gold in this country on the supply of bankers' money is a good deal less acute than it might otherwise be owing to the separation of the two departments of the Bank of England and the fact that the reaction through the banking department provides a sort of buffer between the issuing departments of the bank generally and the supply of credit. I think you get the elasticity which is wanted in the British system from the interposition of the banking department of the Bank of England and its credit creating machinery between the rigid operation of the issuing department and the general supply of money to the market.

14 234 And I take it the great development of Joint Stock Banking and the system of payment by cheques?—Well, that operates both ways. The serious effect of an expansion or contraction of currency in this country now is felt really in the excess of bankers' money.

14 235 That is to say the expansion and contraction in this country takes place to a far greater extent in cheque money or bankers' money than in notes?—Yes, but the contraction in bankers' deposits in the Bank of England immediately affects the amount of cheque money generally that is to say the banking deposits, because according to the ordinary conventions the banks have to regulate the amount of their deposits according to the amount of cash reserve, including bankers' credits to the Bank of England.

14 236 Might it not be said that so rigid a system is possible without inconveniencing the country simply because the credit and cheque system is so well developed in this country?—Well, I am not sure that I agree there. I think the interposition of the banking department of the Bank of England between the Joint Stock Banks and the issuing department certainly mitigates the effect of expansions and con-

tractions of the currency but I think the fact that the circulating medium of the country is so largely a cheque medium in spite of this buffer of the banking department of the Bank of England means that changes in the volume of currency act very severely on the supply of bankers' cash. I think that the fact when you have a contraction its effect upon the supply of bankers' cash is multiplied so to speak, in terms of deposits to perhaps nine times the existence of the cheque system rather tends to intensify the effect of currency contraction.

14 237 Both ways?—Both ways—to intensify it rather than to mitigate it but you get mitigation from the interposition of the banking department of the Bank of England.

14 238 Would you please tell us why you think that a similar system would probably be preferable for India having regard to the fact that India at the present moment is not endowed with a very adequate banking organisation?—Well, I think if India is to have a gold standard of her own independent of anything else it is essential for the working of that gold standard that the forces that are required to maintain the gold reserve and to adjust the disturbances in international equilibrium should operate with very great certainty and very great precision. As I was explaining a minute ago, in India they will operate very largely directly on the circulating medium. Therefore you do not get that multiplication in their effect which you get in this country through the bankers' reserves and the Bankers' cash. Therefore, I think if India is to have an independent gold standard it is necessary to have an arrangement under which fluctuations in the gold reserve will act very immediately on credit conditions. I hope I have made myself clear.

14 239 Yes I quite follow you. But would not the effect be of making expansion and contraction much more difficult. As you know, India's demand for currency fluctuates very widely. During the busy season a great deal of currency has to be supplied if money conditions are not to be disturbed, and in the slack season a great deal of currency comes back from circulation. In such a system as you envisage the issue of currency would have to take place on a 100 per cent gold cover which would have to be imported and in the ordinary course of things could only be imported when the export goods are leaving the country that is to say, when they have been reaped. In the interval the demand for currency is there. How do you think that could be supplied if it is all to be issued only against 100 per cent gold?—I take it that could be met by allowing a certain amount of fluctuation in your gold reserves, that is to say when the normal seasonal demand for currency was the highest.

14 240 But you could not do that?—No, perhaps not.

14 241 All your notes would be issued on a 100 per cent cover except the fiduciary part?—I think certainly if that seasonal fluctuation is very large that is an argument for some special arrangement for increasing the fiduciary issue during the period of seasonal demand, or possibly for adopting some modification of the percentage arrangement rather than the pound for pound cover. I think that is true. This is an aspect of the question which has rather come to me at a moment's notice but I should rather prefer speaking off hand an arrangement for a special seasonal increase of the fiduciary issue rather than departing from pound for pound cover. I do not much like the percentage system.

14 242 Because of its accentuating effect upon expansion and contraction?—Yes.

14 243 You would suggest that there should be latitude given for seasonal expansion. As you know the expansion stands in a definite relation to the volume of the harvest and the money value of the harvest. Would it not be very difficult to lay down a rule under which that expansion is to take place?—I think it would be very difficult.

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14,241 Would not the balance of advantage be on the side of a percentage system in those circumstances with, it you, like, stringent rules for the use of the gold cover to be maintained?—Yes, I think probably it would. I am all in favour of simplicity in currency arrangements. Any kind of arrangement that is unduly ingenious, I think, tends to break down by its own weight.

14,245 Then with reference to the surplus gold in the United States, you said that if £100,000,000 sterling were withdrawn now or in the immediate future, that would not affect the world price of gold, that is to say, gold commodity prices the world over because America has a great deal of redundant gold. If the tendency continues for European countries, and possibly countries in Asia, like China to adopt the gold standard and gradually to draw away from America that surplus in order to restore the reserves, would not that have a pronounced effect upon gold prices if the gold production does not keep pace with it?—Unquestionably. If the world generally takes to what I may call hoarding gold, as a short expression—you understand what I mean—and each country when it returns to the gold standard adopts a very safe system of gold reserve, I have no doubt that the general world demand for gold will rapidly overtake the supply and we shall see a tendency all over the world towards falling prices. I do not think you can get away from that.

14,246 Could you tell us whether the tendency now in Europe is for countries, which have temporarily departed from the gold standard to restore it and to restore their gold reserve?—Well, the only country, I think, that has made any demand on gold that is very material from the point of view of total volume of gold up to the present time is Germany. Germany has made as I said before, very much larger demands than I personally had expected, but I think that is partly under American inspiration.

14,247 You do not know what the other countries are doing which have restored their currencies to gold?—I expect you have better information on that subject than I have. My impression, subject to your better knowledge is that countries like Austria have absorbed a certain amount of gold but the things are on so small a scale there that from the world point of view it is not very material.

14,248 I had in mind Austria and Hungary. Hungary in particular has been absorbing gold lately?—Yes. My own impression is that the fashion at the moment is for these countries who have had their currencies very seriously disturbed to say "Well let us be on the safe side. Let us supply ourselves very well with gold reserves so that the follies from which we have suffered will not happen again." I think as they get a little more nerve they probably will not make quite the same demand on the gold supplies of the world as they incline to do at the moment. That is my feeling about it. Countries like Austria and Hungary, which have parted practically with the whole of their gold, had to re-create their gold reserves. Take France. I cannot imagine that when France ultimately returns to the gold standard she will need on once more gold than she has at the moment.

14,249 Then one other question about the basis of stabilisation of the Indian currency. You are probably aware that the rupee has been practically stabilised at 1s 6d for the matter of a year?—Yes.

14,250 The pre-war par being in the terms of sterling 1s 4d?—Yes.

14,251 There is a divergence of view as to the point at which it would be best for the rupee to be stabilised. What would be your own opinion about that?—Well, I have a very definite opinion as to the proper policy to be followed in all cases of stabilisation of currency. I do not think that from the point of view of the ultimate state of affairs that point matters at all. I do not think that ultimately it will

either benefit India or be detrimental to India if the rupee was 2s 0d, 1s 6d, 1s 4d, or 1s 0d, that is to say, when things have adjusted themselves to the new value. Therefore, it seems to me that the only material consideration in deciding on a figure is what figure can be reached given the *status quo* at the moment with the minimum of friction and the smallest degree of inequity to existing interests. If you have had a rate of exchange persistent over a fairly long period, I am pretty clear in my own mind that the proper rate at which the value should be fixed should be somewhere in the immediate neighbourhood of that rate of exchange. You will then not interfere with the expectations of the people who have fairly recent contracts. On the other hand, if your stabilisation is of recent date, the right figure might be one intermediate between the current rate and say, the rate that was current 18 months before. There are some cases in which I should be disposed to take my rate possibly on a three years' average of exchange. In other cases I should take it at its current rate, particularly if it was a stable rate. I might propose to go a little above or below that owing to special conditions and considerations of expediency in relation to (say) the public debt, or something of that kind, but I certainly should not try to adopt on any theoretical ground an arbitrary rate differing very widely from the rate which the experience of the merchants has established.

14,252 Would you say that stabilisation of the external value of the rupee for a year at 1s 6d must have conducted to an adjustment of internal prices to that external value? Would you say that a year is a sufficiently long period to establish that equilibrium?—I should not like to say that quite dogmatically. I should want to examine very carefully the circumstances that had been maintained through that year. There might have been special circumstances that tended to affect the exchange rate or the external value, that had not been fully reflected in the price level.

14,253 But on the whole you would be inclined, if the external value had been stabilised for a sufficiently long period and if there were no special reasons against it to stabilise at that point?—I should start with a strong presumption in favour of that point.

14,254 (Sir Mankajee Dhabhoi) I understand that, in your opinion, the fundamental basis of currency policy in England even to-day is free coinage of gold and free convertibility?—Not free coinage of gold in England to-day, but free convertibility of the legal tender money into gold bullion.

14,255 Into gold bullion only?—Yes.

14,256 Not free coinage of gold? I understood at the commencement that free coinage of gold was included in that category?—No, that was the pre-war system.

14,257 It would not be correct to say as some of the witnesses have told us, that England has only temporarily abandoned the policy of a gold coin currency?—It is impossible to prophesy as regards the future. I think for sentimental reasons we should be very glad in this country to give anybody who desired to have gold coins gold coins on demand, but I do not think we regard it, as I said in my evidence in chief as being of any very serious importance from the economic and financial point of view. But we have our traditions and the British sovereign is regarded with very great affection by the people and if it could be given back to them so to speak, without serious loss, I think everybody would welcome it.

14,258 I want to make the position absolutely clear. Am I right in inferring that this exchange of gold is not only given for foreign export purposes but also for internal currency?—At present of course, it is the settled policy of the Bank of England and the Government not to encourage the internal circulation of gold. The holder of a

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Treasury note or a Bank of England note, has no legal right to obtain the gold coin in exchange for that note at the Bank of England.

1424 But in practice it is given without objection if a party asks for it?—Will I think that question should be put to the Bank of England *retrospective rather than to me*. My impression is that the Bank would be very unwilling to refuse gold coin to a reasonable extent to anybody who came and asked for it over the counter but I think you would have to take the trouble of making a personal journey to the Bank in order to get that gold coin.

1425 Then you stated that in case India should go on the gold standard it should adopt a fixed fiduciary circulation as it would be a rigid brake on inflation. Can you enlighten us as to the limit of this fixed fiduciary circulation?—The amount of fiduciary circulation?

1426 Yes. As I said I am not prepared to speak definitely in relation to Indian conditions but there is a general principle which applies to all countries as regards the proper maximum fiduciary circulation and that is an amount which is less than the volume of currency which in the most unfavourable conditions of previous experience has been retained in circulation that is to say your fiduciary circulation ought to be well below the ascertained minimum needs of the community.

1427 But to what period would you extend that? Would you extend it in any definite period to overtake the circulation?—Where the population is growing and conditions were altering you would have to make allowances but in any case it is a figure which must be fixed on the safe side. In determining the fiduciary circulation on the principle of a rigid currency you must say what is the lowest quantity of currency which it is conceivable that the community should be able to carry on with. Then your fiduciary issue must be fixed below that figure. It would necessarily be a guess to make a precise estimate of course.

1428 Is any prohibition or limit fixed in England to the utilisation of the reserve so that it should not go below a certain figure?—No, the last £ can be called upon if necessary.

1429 The last £ is available for that purpose if they want it in this country?—Yes.

1430 You also stated in answer to the Chairman that the gold exchange standard was admirably suited to the Indian currency system before the war, and you further added that it is possible to argue that if India had had the gold standard before the war it would not have suffered losses to the extent that it has suffered them. In view of that opinion, am I right in concluding, that you would not recommend a gold exchange standard for India, considering the dislocation in trade and the substantial losses India sustained after the war?—I am in favour most certainly as regards India, and so far as I am a judge, of getting back as nearly as possible to the pre-war conditions that is to say, a standard which is based on sterling. I think on the other hand, that India would be well advised to maintain on her own account very considerable gold reserves partly as I say, as a contribution to the maintenance of the joint gold standard of Great Britain and India (as a duty she owes to that standard) and partly from the point of view of her own protection.

1431 Then on the whole, you think it would be to the advantage of India to go on to the gold standard?—Not a completely independent gold standard. I should myself recommend a sterling exchange standard plus what I may call an emergency gold reserve.

1432 But if she is in a position to maintain gold reserves, and also to obtain gold in the market and also able to fall back on the gold hoards in India, would you then agree that she should have a pure gold standard?—Would you mind saying what you mean by "a pure gold standard"?—

1433 I mean a gold standard as distinct from the gold exchange standard as it was understood before the war—I should certainly be in favour of India maintaining a considerable part of her currency reserves in the form of sterling rather than of gold. To that extent I should adopt the exchange standard that is to say, that if India wishes to maintain her unit of value I should think she would be better advised to take the initial action necessary towards maintaining it through the realisation or the increasing of sterling reserves rather than direct dealings in gold. To that extent I am in favour of the exchange standard. On the other hand I think that if India practically relies on the gold reserves of the United Kingdom, it is reasonable enough to expect that India should herself maintain a certain amount of gold for use on occasion as a buffer. If the Indian reserves of gold, say at the time of the war had been larger, it might have been possible—though here again I speak with very great diffidence, because I have not followed the details of the matter—to have prevented the difficulties which sterling experienced during the war, and more particularly immediately after the war, from reaching so acutely as they did on India. The independent gold reserve of India would have been extremely useful at that time, but though a currency system ought to be adapted as far as possible to obviating dangers in times of serious world-crises such as the war after all the main use of a currency system is to function normally in normal times of peace. Apart from these serious cataclysms, I think the best and most economical system of currency (and after all economy is a matter of some importance to a community such as that of India) is one that depends primarily on a well-established world standard of value such as the pound sterling.

1434 You have stated that if we require 20 million to 30 million in order to enable India to go in for a gold standard without gold currency, the liberation of that amount by the United States would not seriously affect the gold position, and that it would be available?—That is my impression.

1435 Am I right in concluding that in your opinion America would be glad to be relieved of the embarrassment caused by holding an enormous surplus of gold which she could not possibly absorb for some number of years for internal purposes?—My own impression, from what I have seen from the reconstruction of European currencies and so on, is that America is extremely dissatisfied with the volume of idle gold held in America, and that it will be agreeable to America that an outlet should be found for a part of that surplus elsewhere.

1436 And it would be agreeable that an outlet should be found, even taking into account the small injury which would result from increased prices in America itself?—I do not think comparatively small fluctuations in the gold holding of America are likely to affect American prices. The supply of credit in America depends so much on the more or less arbitrary action of the Federal Reserve Board that a comparatively small inflow or outflow of gold is not likely to have any appreciable effect on internal prices. That is the way I read the situation.

1437 There is no real danger of increasing prices? It is only an apprehension?—I do not think gold movements of that kind are likely to affect world prices. I give that opinion for what it is worth. I may be quite wrong.

1438 In case India wants these 25 million or 30 million of gold and she has to float loans in this country will there be any difficulty about obtaining credits either in London or in India in your opinion?—I do not know that I am very competent to express an opinion on that.

1439 But you will say this, will you not—that part of this gold can be easily obtained from the United Kingdom?—I think a part would be available from the production of the South African mines which normally comes here, and which, in the absence



Lord BIRCHALL of WINCHESTER, G.C.B.

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of demands from elsewhere, such as India would probably be sold to America.

14275 In answer to the Chairman, in discussing the silver question you expressed the opinion that if a large quantity of silver coins were disposed of it would cause some difficulty, and the price would depreciate. I presume that in expressing that opinion you have not taken India's conditions into consideration—of which you yourself stated at the beginning of your evidence that you had not adequate knowledge?—I only expressed that opinion very diffidently. I cannot pretend to be an expert in the silver market. I cannot form any impression of the amount of silver which the market could absorb without seriously affecting prices. It would be possible for the Commission to get very much better opinions on that subject than mine. Indeed, I am not sure really that I should have expressed an opinion at all.

14276 What I mean is that you are not aware of the possibilities of India for absorbing silver which would be dislodged by the currency?—I am not quite sure whether I follow you. I think the point was this: what would happen to the silver at present in the form of coined rupees if it were melted down and disposed of?

14277 Yes—how it will affect the world price of silver?—I was assuming that a market would have to be found for that silver outside India. I do not know how much, if any, of that silver India would be prepared to absorb as metallic silver. That I know nothing about.

14278 Speaking about the issue of notes, you say you are in favour of the control of the currency being given to an independent authority in normal times. At the same time you add that Government should not cease to interest itself in the currency system. Am I to gather from that that you favour the handing over of the currency system to a Central Bank provided the Government keeps the power of superintending its control in times of crises, or any thing like that?—I think, in normal times the less Government interference you have in currency matters the better. At the same time, I am just a little afraid that, owing to the fact that Governments throughout the world have of late years made rather a mess of currency matters, that very sound doctrine may be pressed to the other extreme, and that people may say that Government has no concern in currency at all. Of course, the Government must lay down the law which governs the currency in any case. In times of national emergency, as was shown in this country at the outbreak of the late war, Government must interfere. I am all in favour of keeping the interference of the Government within the narrowest possible limits, but at the same time I am not in favour of the ideas which are tending to grow up now to some extent in some quarters that the Government should simply turn a blind eye on currency and say it is not the Government's concern. I think the dangers of that are almost as great as the other policy of the Government trying to regulate what I may call the commercial and technical side of currency.

14279 You are aware of the present constitution of the Imperial Bank of India. I presume?—Generally speaking, yes.

14280 Suppose if we are not in a position to go in for a Central Bank in the sense in which Central Banks are understood, would you agree to the present Note issue being handed over to the Imperial Bank of India?—I should Government maintain control and supervision over all the work and can direct the main financial policy of the Bank?—I hardly like to express an opinion on that without much more complete knowledge of the organisation of the Bank than I possess, though I imagine that a Bank with the constitution of the Imperial Bank of India could easily by Statute be adjusted to the position of a Central Bank. I should not be in favour of creating a sort of separate department of a Bank which would act

under Government supervision. I think that is a great mistake. I am all in favour of—indeed I think the main recommendation of entrusting the control of currency to a Central Bank is that the management of the Central Bank should feel a commercial responsibility for the currency. If they are under the control of an official adviser that commercial responsibility tends to disappear.

14281 Would you in that case still reserve the power of the issue of the Notes to the Government of India, or would you prefer that the Bank should issue in its own name?—I do not think that is of very material importance. I think the question of whether the Note should be the promise of a Bank to pay or the promise of a Government to pay is largely a matter of public sentiment. I can imagine that in some communities the Government Note would be regarded as a safer thing than the Bank Note.

14282 That question should be decided by public sentiment?—I think so. I do not think that is necessarily connected with the management of the issue. A Central Bank might have complete control of the management of the issue but obtain its actual Notes from a Government currency commissioner.

14283 In answer to Sir Henry Strakosch, on the question of the stabilisation of the rupee, you stated that the figure which we should fix should be reached with the minimum of friction and the smallest extent of injury to existing interests. May I request you to amplify those "existing interests"?—Those existing interests may have been of some duration. They may have been inherited. There may have been a period over which those existing interests were spread?—Any change in the value of the currency unit tends to alter the comparative position of creditors and debtors speaking generally. If your currency unit appreciates in value, you increase the burden of existing debts. If it diminishes in value you diminish the burden of existing debts. As regards a long-term debt, if your currency unit has depreciated, the creditor has suffered constantly over a period of years. On the other hand he may have capitalised his loss and transferred his credit to someone else at the diminished value of the credit. Therefore, if you put your currency unit back to its old value you are making restitution to a person who has got the old credit at a bargain, and the old creditor gets nothing back. So that the tendency is over a series of years, for the losses of the creditors on a depreciated currency unit to become irretrievable. Therefore the material thing is to see that the people who have made recent contracts, so to speak, should neither gain nor lose according to their reasonable expectation. I should therefore not be very much concerned as to what the currency may have been worth four or five years ago. Of course with a depreciating currency one feels very great sympathy with the old creditor who has lost his money. With an appreciating currency one feels perhaps even greater sympathy with the debtor who is asked to pay in substantial value a good deal more than he contracted to pay, but owing to the fact that the vast majority of debts are either new debts or old debts which have comparatively recently changed hands the line of least resistance and I think also, the line of the minimum of inequity, is to stereotyped as nearly as possible at the point reached.

14284 When you refer to this minimum of friction do you refer to the friction caused to internal prices or to worldwide prices?—I was using the word "friction" then rather in the moral and political sense—the rate which will cause the least general dissatisfaction.

14285 And not in the sense of affecting the internal prices or internal adjustments?—I ought to have said at the time that I think in considering your rate of stabilisation you must bear in mind not only the current exchange but the relation of internal prices to that rate of exchange. That is an important qualification. I do not think you can turn a blind eye as to it. I really dealt partially

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gold reserve of the Indian currency at that time was comparatively small

14307 Then the gold reserve which you recommend in what appears to you to be the ideal system namely the sterling exchange standard—the investments in sterling and gold for emergency purposes—would in any case not be of much use to England because the quantity of gold which India would have would prove very small compared with what would be required to support sterling. Everything counts of course but it would not be appreciable would it?—Sinking for the English point of view I would say this. Many countries have taken advantage of the high reputation of sterling as an international medium to base their currencies upon it. Quite apart from India, a good many countries have done that. Before the war Greece had an exchange standard based on sterling. The new countries are doing it. Part of the reserves of the Reichbank are held in sterling and part in American dollars. I would very much like all those countries to make an adequate contribution to the gold stock on which sterling and ultimately their own currencies to a large extent depend. But one cannot require them to do it and I think this country will have to face the obligation of maintaining the value of its currency in its own interests and in other people's interests. It is not entirely a quixotic action because the fact that sterling occupies that position brings to this country very profitable business and the profits of that business can be set against the costs of maintaining the reserves. The maintenance of these reserves for the world in general is no mere generosity on the part of Great Britain, I am not pretending that at all. It attracts profitable business and thus is part of the outgo in connection with that business.

14308 The ground which you urge about economy in one which is common to all countries, but very few countries fall back on that economy in their currency systems do they? Always their first consideration is to have as much gold as they can, and then when they have enough of it, they turn their eyes to interest on securities?—Yes. This country has always been extremely economical as regards gold reserves. For many decades we did the largest international trade in the world on what most people regarded as a wholly inadequate gold cover.

14309 You would not recommend India to keep a very keen eye on the interest that she would earn?—I should recommend India and any other country only to carry the minimum amount of idle gold necessary for safety.

14310 You would concentrate your attention first on safety rather than on interest on reserves?—Yes.

14311 You said that if India went on to a gold standard and absorbed gold that she would not, in your opinion be upsetting world prices or conditions, but would help the ultimate normal adjustment which will take place when America has parted with her idle gold?—What I wanted to indicate was this. I thought that the stocks of gold in America were, for the time being at any rate so much in excess of American needs that very large amounts could be taken by India or by other countries, with the result merely that America would adjust her credit policy to compensate for this loss of unnecessary gold, and there would be no disturbance of prices,—at any rate no disturbance beginning at the American end. Of course that process can only continue until the surplus stock in America has been absorbed. When the stock of gold in America has fallen to the point at which it provides only an adequate metallic basis for the credit structure of America then you get the situation of what you may call a world free market in gold. If after that new demands arise anywhere unless there is a corresponding increase in supply through the development of new gold mines and so on, the tendency will be that the existing stocks of gold in relation to the demands on them are reduced, and you must get a fall in world prices.

14312 The stock of gold in America at the moment is considerably bigger than the amount which India can want or can afford?—Yes. I should not like to hazard an opinion as to the amount of gold which America would be willing to part with without feeling any anxiety but an American witness might give you that figure very much better than I. It is certainly very much in excess of any figures we have been discussing to-day.

14313 Regarding your outlook of gold prices under present conditions in Europe—prices of commodities in gold—could you tell us what your opinion is. Are they likely to go down further or are they likely to keep stable round about the present figure? I think it is extraordinarily difficult to hazard any kind of conjecture on the general trend of world prices. Universal experience has shown pretty clearly I think that with every large war there has been a general rise in prices which has become stereotyped. The tendency of prices has always been upwards. I suppose it is the natural result of periods of widespread embarrassment that the debtor tends to obtain relief in respect of the burden of his debts and the creditor has to accept a compromise. As we know, civilization always runs on slowly rising prices. In the event of a further catastrophe I should think having regard in particular to the monetary policy adopted by America (which of course is a very important element in it) that the tendency for some time to come would probably be towards stability at something like the present level but I speak very doubtfully about it.

14314 I understood you to say in reply to the Chairman that in your opinion a rise in gold prices does not suit America at present and you stated certain reasons one of which was that America is a creditor country and does not want to allow prices to rise any further?—Does not want prices to rise any further.

14315 Yes, that is it. That tendency on the part of America is likely to last a fairly long time is it not?—She will remain a creditor country for some decades yet?—I should think it would need another world catastrophe to turn America into a debtor country.

14316 Therefore as long as America controls world prices the probabilities are that there will not be any marked appreciation in world prices?—It is very difficult to prophesy about these things. I think the currency system of America is such that the authorities can pretty well determine the price level as they like, irrespective of the gold supply. On the other hand there are naturally various interests in America. There are also sentimental considerations which weigh and it does not necessarily follow that the policy which is being followed at the present moment will be persisted in over a period of ten years. There may be a change. There may be a movement in favour of easier money and higher prices in America but I see no signs of it at the present moment.

14317 Or for the next ten years approximately?—It is a thing which might happen at any moment you cannot tell.

14318 Regarding the ratio, I understood you to say that you saw no harm ultimately whatever the ratio was fixed at. When you said 'ultimately' I presume you meant when complete adjustments were made?—Yes.

14319 Can you with your experience enlighten the Commission as to the approximate time which a country takes for complete adjustment?—I think they take place very rapidly.

14320 Would you put the period at a few years or at a few months?—A few years at the longest. One thinks of the adjustments which have been made in Germany with the disappearance of the old mark and so on. Apart from shiftings in capital which is a much more serious matter, as regards

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the ordinary day to day transactions, the purely currency side of the German trouble is almost over.

14321 Can you tell us what are the main heads under which you would look for adjustments in coming to a decision on this matter?—I do not quite follow that.

14322 I mean the main heads under which you would look for adjustments before deciding the matter. I presume for instance you would look for adjustments in wages and prices.—The two things I should take into consideration in determining the ratio are the current exchange rate and what I may call the purchasing power parity of the rupee, that is to say, what is its gold value for the purpose of buying things including wages, in India, and its exchange value. If I found those things approximately the same then I should adopt the existing exchange value without any hesitation. If, on the other hand, I found a wide discrepancy, then I should be disposed to consider some figure probably intermediate between the two.

14323 You said the purchasing power of the rupee internally in regard to wages, and what was the other?—And commodities—goods.

14324 Commodities, of course, would be decided by index numbers.—I suppose they are the only guide one has.

14325 What would you go on for wages—for a fall in wages compared with the appreciation in currency?—Wages are extraordinarily difficult. One does not know to what extent real wages in India may have altered through economic conditions within the last ten or twelve years.

14326 I think your evidence would be of more value if I may say so if you could give us your opinion on the matter. We want to know exactly what would be the general principle that would be observed in India as in any other country. How would you judge the necessary adjustment of wages? Would you look at the wages of 1914 and say,

When the rupee was worth this, wages were this and when the rupee appreciated wages followed to this extent, and the two in the cost of living has been this and therefore there is an adjustment to be sought to this extent?—Yes. I am afraid a problem of that sort cannot be disposed of by a simple formula. I should feel a certain amount of confidence myself I think, in adopting the current rate of exchange if I found, on examining the ordinary index table of commodity prices that the internal prices had adjusted themselves to that level. I am not sure really—though, of course, the question of wages is of enormous importance—that we could get any kind of formula on which you could bring it into the sum, so to speak, for the purpose of making the calculation.

14327 Would you, then in the case of a country like India where the main industry is agriculture give any consideration to the interests of the agriculturists who would suffer during the period of an adjustment and until the adjustment is complete? They would get fewer rupees owing to the higher ratio.—I am not sure that anything they have suffered they may not have suffered already. That depends rather on the question how far the internal prices have adjusted themselves to the exchange level. If the internal prices have adjusted themselves to 1s 6d exchange then there is no reason to suppose that stereotyping the exchange at 1s 6d will have any further effect on the internal prices.

14328 Regarding general prices supposing the cost of living is 50 or 55 per cent above the 1914 level and that the agriculturist who grows cereals is getting only 3s per cent more for his produce what would you say? Would you say that he is suffering?—I suppose you cannot resist that conclusion.

14329 Would that affect your decision?—No, I think not because probably the reason why he is suffering in that case is that there has been some economic cause quite apart from currency considera-

tions which has made agriculture less profitable in India, and I am not sure that the agriculturist would get any permanent advantage if you took a rate of exchange other than 1s 6d for your stabilisation. He might get a temporary advantage, but when prices had adjusted themselves generally to the new level he would probably be again suffering the same handicap which he is at present suffering.

14330 Then I take it your position would be the same whether the rate was the same as it has been for the last year or whether it was 1s 5d or 1s 7d or 1s 9d or 1s 6d?—Certainly.

14331 You would pay no consideration to the figure as such?—No. The two considerations I should have in mind, in determining the rate, would be the course of the exchange over a comparatively recent period, and the general level of prices over the same period.

14332 You said in reply to Sir Manekji Dalalshay that whether the course of exchange was guided by manipulation or by natural factors it would not weigh with you?—Only to this extent. If the exchange had been governed by manipulation, and if prices had not adjusted themselves to the manipulated exchange, then I should have been disposed to take what appeared to be the natural unmanipulated level of exchange, as indicated by the level of prices, rather than the current exchange rate.

14333 How would you arrive at that natural unmanipulated rate of exchange, may I ask?—I should see what was the relation at the moment of Indian prices to world prices—what were gold prices in India so to speak. Then I should try to get a value for the rupee which would make the rupee prices bear what appeared to be the normal relation between rupee prices and gold prices. Of course the thing cannot be done quite simply, because naturally the things which India produces will be cheaper in India than elsewhere, and the things which India imports will be dearer in India than elsewhere. Still, it is not an impossible thing. Take, for instance, the country which is very much to the fore now, France. There is no doubt that on the general level of prices the French franc is worth a great deal more than one one hundred and fortieth of a £ sterling. If you could conceive an immediate effort being made to stabilise the French franc it would probably create a good deal less internal friction in France if you made your stabilisation rate, say, 120 rather than 110. That is the kind of thing I have in mind.

14334 In every European country financial experts have recommended those countries going back to pre-war ratios wherever possible. I wonder if you agree that they should make efforts to get back to pre-war ratios as quickly as they possibly can or as near to such ratios as feasible?—I am not quite sure that that puts it in quite the right way. The Germans, for instance, only got back to the pre-war ratio by saving that a billion marks should be the equivalent of one new mark.

14335 Is there any parallel between German currency and Indian currency?—No, I think none at all. I do not think there is any particular virtue in the pre-war ratio.

14336 Still Great Britain made heroic efforts to get at the pre-war ratio and she got at it in spite of considerable protest from some people here?—I think that was owing to considerations quite peculiar to Great Britain. Great Britain's position as an international clearing office depends very largely on attaching an almost exaggerated sanctity to itself. It was very important indeed for Great Britain that promises by Great Britain to pay sterling should, whatever may have been their legal character, operate in fact as promises to pay gold. Therefore for that reason it is as essential that we should avoid anything in the nature of shaking off a burden. Though we were in the main only under contract to pay our own money, we had in substance to pay gold. That sounds very virtuous, but on the other hand, you must remember that for every £ which we

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[Continued]

owed to foreign countries foreign countries owed us a very much larger number and it was also very much to our interests that in respect of these foreign debts we should receive a gold £ for every sterling £ that was owed to us. So there was an element of intelligent selfishness as well as of mutual morality in the return to the gold standard.

11337 But for this according to you Great Britain might have left behind the pre-war ratio and stabilised it at something lower?—She might conceivably have done so if she had thought it to her interests to do so. There was at one time a school of thought which was very much in favour of having a new ratio to the dollar.

11338 India with a 1s 6d rate would be the only country which has an appreciated currency over the pre-war ratio?—I wonder if that is so? I think probably it is.

11339 We had it from an authoritative source that India is the only country in the world with an appreciated currency over the pre-war ratio, every other country having tried to get to her pre-war ratio. You do not think there is anything which would strike you as peculiar about this suggested position of India?—I think the precise ratio in any case is a matter to be settled entirely according to the enlightened view of the interests of India herself. By increasing the gold value of the rupee, it means of course that India is paying in respect of her foreign debts—not of course her sterling debts but those expressed in her own currency—more than she receives in terms of commodities. There is no doubt about that. That *prima facie* is a very strong argument against increasing the value, but there may be arguments and I think there are arguments, in the other direction.

11340 Such as?—That to depreciate the currency now from the present figure of 1s 6d to 1s 4d would cause a disturbance of existing relations of debtor and creditor in India which would not be to the good of the community as a whole. That is the argument but I am not expressing a view one way or the other.

11341 (Sir Egidius Mont) You have expressed a preference for a fixed limit to the fiduciary issue if the gold standard is adopted. Would you contemplate a periodical increase in that limit as the volume of circulation grows? I may explain that the circulation in India is increasing very rapidly in fact in the last ten years the currency note circulation has about trebled itself, and in actual practice we have a fixed limit to the fiduciary issue, but it has been periodically raised during the last ten years to keep pace with the increasing volume of note circulation—I see no objection to that at all. I think there is a good deal to be said for varying the fiduciary issue from time to time when economic conditions have actually altered.

11342 And in connection with the seasonal demands for currency we have at present a system under which the fiduciary issue is temporarily increased within fixed limits. When the Bank rate is 5 per cent it may be increased by so many crores. When the Bank rate is higher it may be increased to a larger extent, and so on. In answer to Sir Henry Strakosch I think you rather thought that the necessity for seasonal increases might necessitate the abandonment of the principle of a fixed fiduciary issue, but the two are combined at present—If you have an emergency increase of a fixed issue depend-

ing upon the Bank rate or anything of that sort you do get some little distance along that road which leads you to the percentage criterion. Personally I much prefer the special arrangement for dealing with the seasonal fluctuations combined with the fixed issue to a flat percentage arrangement. I prefer the arrangement you have described.

11343 That is the arrangement in force at present except that we have rupees as cover instead of sovereigns—you could work it equally with the fiduciary part of a note issue based on the gold standard.

11344 The present system practically fits in with what you recommend. Just one other question in connection with the separation of the issue department from the Banking department if a Central Bank is instituted. I understood that in reply to the Chairman you expressed some doubt whether the Bank should be treated as a member of the public in taking Notes from the issue department. Was that not so?—I think from the point of view of determining the percentage you will have to treat the issuing Bank as a single entity that is to say, the circulation would have to be the total of Notes issued less the Notes in the Banking Department. That is of course the invariable principle in regard to American and Continental Central Banks.

11345 But there have not a separate issue department have they?—No. I am rather afraid that if you treated the Banking Department as the outside public from the point of view of the application of a percentage standard it would be very easy indeed for the Central Bank to adjust matters as between the Issue Department and the Banking Department.

11346 There would be no real check?—It might be possible to devise a check but I have never heard the percentage system advocated in combination with a separate issue department. The whole of the movement for the adoption of the percentage system in this country—which was associated with the name of Sir Edward Holden—involved amalgamation of the two Departments of the Bank of England.

11347 So it comes to this practically—that you cannot have a separate issue department if you have a percentage cover?—I should not put it quite so definitely as that but I think the machinery for adapting the separate issue department to a percentage cover would have to be very carefully thought out.

11348 No country has succeeded with it or has attempted it?—I do not think it has ever been tried so far as I know.

11349 (Chairman) Are there any other matters into which we have gone to which you would care to revert or to amplify?—No. I do not think so. I have given you my views on these matters for what they may be worth. I am afraid I have trespasses a little beyond the limits I laid down for myself but I have naturally taken a considerable interest in Indian matters and I found it rather difficult to abstain from expressing opinions when I have been invited to do so. At the same time I do want to emphasise the fact that any opinions I have expressed in regard to Indian conditions are purely those of an amateur.

11350 (Chairman) We have to thank you very much for your most useful and ample assistance to-day.

(The witness withdrew.)

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The Right Hon. MONTAGU NORMAN, P.C., D.C.O.,  
and Sir CHARLES ADDIS, K.C.M.G.

[Continued]

## FORTY-FOURTH DAY.

Monday, 19th April, 1926.

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG P.C., D.C.O., B.A.C., M.P. (Chairman)

SIR RAJENDRANATH MOOKERJEE K.C.I.F.,  
K.C.S.I.

SIR MONTAGU HASTINGS YERLES WARREN, K.C.I.F.

SIR REGINALD MAST K.C.I.F., C.S.I.

SIR MANFRED BRIDGES DIDDMAN K.C.I.F.

SIR HENRY STRAUSS K.B.I.

SIR ALEXANDER ROBERTSON MERRAT, C.B.E.

SIR PURSHOTAMDAS THAKURDAS, C.I.F., M.B.F.,  
M.L.A.PROFESSOR JAMNAGESH COOPERJI CHOTIAI  
MR. WILLIAM EDWARD FRESTONMR. G. H. BAXTER (Secretaries)  
MR. A. AVANARThe Right Hon. MONTAGU NORMAN, P.C., D.C.O., (Governor of the Bank of England) and  
Sir CHARLES ADDIS, K.C.M.G., recalled and further examined

14301 (Chairman) Mr. Governor, when we adjourned last time you were assisting us, with Sir Charles Addis, on the subject of a currency standard for India.

14302 (Sir Purshotamdass Thakurdass) Can the sterling securities in India's reserves in London be looked upon as gold securities in the sense that they could be liquidated at short notice if necessary?—(Mr. Montagu Norman) To the extent to which they could be sold they could be looked upon as gold.

14303 Could one rely upon selling those securities at comparatively short notice depending upon the volume?—I have no particulars of the securities, but from what I believe them in general to be it would depend entirely upon the volume to be disposed of.

14304 Up to a certain limit it would not matter, but over a certain limit it might?—It is a question, as with everything else of finding buyers.

14305 To that extent, therefore, gold backing of notes is always preferable to securities, is it not?—I favour a division between the two, a gold backing alone is perhaps a counsel of perfection.

14306 You favour the other because it is more economical, as it brings in a return?—Yes, and because we are at present in what I regard as a transition period, following the events of 12 years ago, and as I tried to explain when I was here before we must in my opinion all try to advance together via a gold exchange standard to a more complete gold standard. I am speaking particularly with regard to the covering of Note issues.

14307 You say that because we are in a transition period you would recommend a division between the two, namely gold and gold securities. What would you recommend when we are in a period which is outside the transition period—when we are in a normal period?—Do you mean what would I recommend as the ultimate goal at which to aim?

14308 Yes?—A large proportion of reserves against your notes in gold. I do not think I can define the proportion at this moment because that is an ultimate and a hypothetical question. Of course when I speak of securities I refer to external securities.

14309 I understand. The sterling securities in India's gold reserves here are external for India are they not?—Yes.

14310 The difference between what you recommend for normal periods in India and what you recommend for the transition period is due to what particular circumstance?—It is due in the main I think to the ill distribution of gold throughout the world.

14301 Then may I take it that you make this recommendation because you apprehend that if India did at present or during the transition period, what you recommend for her as being good in normal periods, the right distributive conditions in the financial markets of the world?—I think she would disturb them. I think all the countries of the world should move in co-operation towards gradually improved conditions. That is what I think we are all trying to do.

14302 You would not approve of any greater restriction on India in that direction than what may exist for any other country in the world?—Generally speaking no.

14303 I will specify what I have in mind. Other countries in the world are able to draw gold for their favourable balance of trade. Would you consider it justifiable on the part of India to aim at doing the same?—There may be occasions when such action would be regrettable, but otherwise I think it is quite justifiable.

14304 I from what point of view is it to be regretted?—As I look upon it, the chief object of gold to-day is to form the basis of international credit, and if India draws its trade balances in gold they may cease to be available as reserves for credit.

14305 Are any countries making any change in that direction from what used to be the ordinary practice before the war?—I am not aware that any other country is taking gold in that way and using it for a purpose where it is not available as reserves.

14306 I am sorry if I did not make myself clear. My question was with regard to the Government drawing gold for currency purposes in liquidation of balance of trade instead of keeping the balance here in securities?—I understood you were speaking of the balance of trade of India, of which a large amount in the last year or two has certainly gone to India in gold.

14307 Yes, but that was on private account?—On whose account I know not, but obviously it is in payment of exports.

14308 What is being done on private account can hardly be helped even though one may regret some aspects of it. No suggestion has been put before the Commission that this activity of India should be restricted. I however was on the question of what the Government may do. Instead of selling excess Councils here and retaining the proceeds in the form of securities in London would there be any objection to the Government drawing such surplus in the form of gold?—For what purpose?

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Sir CHARLES ADDIS, K.M.G.

[Continued]

1430 For the purpose of currency reserves?—You are speaking of the Government of India?

1431 Yes. May I explain my question one step further? The Government of India would limit their commitments to that which was necessary for the Secretary of State's requirements. Beyond that when rupees were wanted by any Banks they would tender gold and get rupees. Similarly the export of gold from India would be free whenever the reverse course was necessary. There would be a free inflow and outflow of gold.—The inflow and outflow of gold is free now is it not?

1432 It is free but the Government do not operate on those lines at all. The Government keep their reserves here in securities.—I have said that I look forward to a time when the note issues will be gradually covered by a larger and larger proportion of gold and if the Indian Note issue, in the way you have suggested, can be gradually covered by a larger proportion of gold I should think that it was, generally speaking, an advantage but I have tried to distinguish between the use of gold for such a purpose as that and the use of gold merely as an import into India.

1433 (Chairman) Sir Purshotamdas Thakurdas is clearly making that distinction, and we understand that you are making the distinction too.

1434 (Sir Purshotamdas Thakurdas) Up to now, at any rate I did make that distinction. You said in your evidence to the Chairman that you believed that gold might circulate in England when her international position had become so favourable as to raise exchange and cause a large inflow of gold, thus strengthening the reserves to such a degree that the circulation of gold coin, an evidence of prosperity, would be practicable. I took those words down from your reply to the Chairman. May I ask if in your opinion India has at present a large favourable balance of trade, and whether her reserves at present can be considered to be strong?—She has had a favourable balance of trade I believe, but I am not familiar with her reserve position.

1435 I wonder if Sir Charles Addis has any views on that?—(Sir Charles Addis) There is no doubt about her favourable balance of trade, and I should have thought the credit position of India was unassailable.

1436 Do I understand that you also think that her reserves are at present in a strong position?—You mean the gold standard reserve and the paper currency reserve?

1437 I mean are the reserve funds of the currency department in a strong position?—Yes I should think they were ample.

1438 The only other condition Mr. Governor, that you named in your reply to the Chairman was a higher exchange. India's exchange has lately been higher than the pre-war level. With those three conditions which you named being fulfilled the only objection that can be urged against India having a gold currency is the consideration of other countries in the world. Is it not a consideration which I minimise at all or which I would suggest minimising, but is it not the only consideration?—(Mr. Montagu Norman) One moment. There are two things in that. I was asked that question by the Chairman and I think I said the only answer I could make would be merely in the nature of a dream. I certainly used the expression "dreaming." 1439 (Sir Purshotamdas Thakurdas) Yes you did.

1440 (Chairman) This is the evidence. (Q) What period would you contemplate in which it would be possible to resume the convertibility of notes into gold in this country, in under what conditions?—(A) Well this is dreaming is not it? We are dreaming now. (Q) If we are only dealing with dreams I think it is hardly worth while to pursue it further.—I was speaking of a possibility not likely to be realised within my lifetime. I was

not advocating that condition. I was looking forward to something that I could put at present foreseen. I was speaking there merely hypothetically. Therefore I venture to say that no recommendation should be deduced from it.

1441 (Sir Purshotamdas Thakurdas) I do not want to read into your very full reply on 29th March a single thing more than you meant. If I may say so I have fully understood the gist of it. Whilst you were dreaming as you said I think you also said it was something you would look forward to and expect to work up to?—Well I do not know I should look forward to it may be but not as attainable in my lifetime. If I said that I should work towards it, that is in line with what I have already said to you this morning that I hope to see a gradual move from the gold exchange standard towards the gold standard. As regards your last question to me—as to whether India should adopt this change at once but for one particular reason which you have named I feel so deeply that the interests of India and of every other country are so bound up together that I do not care to contemplate or suggest that one country should act independently of the remainder, at any rate to more than a limited extent.

1442 But you agree that India should not have any more handicaps than any other country?—I agree.

1443 A witness before the Commission has said this: "It is certainly a striking fact that the Indian exchange is the only important exchange in the world which has appreciated in terms of gold." Is it correct, according to your knowledge that Indian exchange at 1s 6d gold is the only important exchange in the world which has appreciated in terms of gold?—I can think of none other.

1444 I understood you to recommend stabilisation at about the existing rate of 1s 6d gold?—I certainly recommended stabilisation. I have not any definite opinion as to the point at which stabilisation should take place but generally speaking I am in favour of stabilising where you are. It is a pragmatic question.

1445 May I ask why India should stabilise in a manner which is quite exceptional for any other country that is at a higher rate in gold than before the war? Is there any special reason why India should stabilise at that point?—There is no special reason from my point of view except what I find her cure.

1446 It does not matter then in your opinion whether the present rate is stabilised by natural means or by something which is artificial?—If I was aware of the existence of an unnatural position which had resulted from the adoption of exceptional measures that might change my view but as I understand it, though I have not studied the question it has been generally speaking by natural causes that the Indian exchange has come to be where it is, and to remain there over a long period and I see no reason to advocate that it should be altered.

1447 (Sir Purshotamdas Thakurdas) As Sir Charles Addis dealt with this point fully before perhaps he might like to say something now.

1448 (Chairman) Perhaps you will repeat the question.

1449 (Sir Purshotamdas Thakurdas) May I put it to Sir Charles Addis in another way. Sir Charles you recommended stabilisation at 1s 6d?—(Sir Charles Addis) I did not.

1450 As the existing rate?—I did not recommend that. On the contrary my evidence was to the effect that it would be better to wait.

1451 (Sir Purshotamdas Thakurdas) If I remember correctly Sir Charles you said on 29th March you would recommend the Commission to which but if India thought that the time was opportune for stabilisation you would recommend stabilisation.

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[Continued]

tion at the existing figure. May I read to you your reply which I have in mind? It is in paragraph 1175.

14301 (Chairman) Sir Charles Addis said, "I should wait if I were the Government of India, but I do not feel very strongly about it. I do not doubt that if they wished to fix the rate at the present quotation they could do it very well. I admit that if, for instance, they fixed the rate at 1s 6d probably no great harm would ensue. But I also think that with prudence and caution there would be no great harm in waiting a little longer. I do not put it higher than that. You might be right in doing it now, but you would have a better prospect of being right if you waited some time longer."

14302 (Sir Purshotamdas Thakurdas) So that if it was to be done now I understand that you would recommend it should be stabilised at 1s 6d?—I think the misunderstanding arises in the sentence, "I am quite confident that if they fixed the rate at the present price they would do very well." Either that was not correctly reported or at least it did not represent what I intended to say.

14303 I am quite prepared to accept any modification.—The modification is this—that I was confident that if they did fix it at 1s 6d they could do it, but the whole trend of the argument was that they should not do it.

14304 Supposing the Commission come to the conclusion that the time was ripe to stabilise what is the rate you would recommend then?—My recommendation is that the Government should not stabilise now but wait until they are satisfied that equilibrium between external and internal prices in India has been established. For myself I do not lay much stress upon the argument based on the equivalence of wholesale index numbers. They are generally taken from the commodities which are interchanged between the two countries and therefore obviously must be approximately the same. The real test is the exchange itself. If that were settled for any considerable period, at any rate (I do not think the actual rate is of primary importance), then that I think, would be the rate to take. The reason for waiting—which I tried to put before the Commission on the last occasion—is that stability of prices in Europe is not yet assured. Prices in this country during the last year have fallen between 12 and 13 per cent. There have been movements in America even more marked. Of many countries on the Continent of Europe it cannot yet be said that there is satisfactory proof of a state of price equilibrium having been reached. I think there would be not perhaps a great, but an appreciable risk in fixing the Indian exchange until a greater degree of stability has been reached in Europe.

14305 There is, in your opinion a risk of fixing too high a rate and that immediately after that should gold prices decline, Indian prices would have to go down from the existing level. That is the risk is it not?—That is one of them. If exchange is fixed too high internal prices might be too low, if fixed too low prices might be too high.

14306 In order that I may understand exactly your position, may I put it in this way? If 1s 6d is fixed and should there be a further decline in gold prices Indian prices would have to recede and that is undesirable.—I am not sufficiently conversant with conditions in India to give an opinion of any value as to the present position of prices there. I am not sure how far they are in juxtaposition to external prices.

14307 Is your caution directed against further depreciation in prices in India or against a further rise of prices in India?—It is against neither. I want to see the Indian exchange established at a point the most favourable to the interchange of commodities at comparatively stable prices with foreign countries. The particular rate which answers that purpose is not of primary importance.

It is the price ratio which is important. The rate of exchange which fairly equates the two prices, as to ensure the greatest economic advantage to India, is the rate to adopt. But whether that rate should be 1s 6d or 1s 8d or 1s 4d I am not in a position to judge, I do not know enough about local conditions.

14308 In fixing your ratio would you also take into consideration an adequate return in rupees to the grower in India who grows the articles which are interchanged?—I do not know how you could fix such a point.

14309 Would you give any consideration to that point?—I would, but I confess that phrases like "adequate return" and "a fair wage," and so on are rather meaningless to me. I do not know just what meaning to attach to "adequate return."

14400 What would you recommend the Government of India to do in the meantime? Supposing the Commission were disposed to follow your recommendation, and wait. What should this Commission recommend the Government to do in the meantime, bearing in mind that on the Statute Book there is an ineffective ratio of 2s?—I should recommend the Commission to advise the Government to hold their hand until matters have become more settled in Europe before coming to a decision on the point, in order to allow the free play of exchange to determine the point of equilibrium between internal and external prices.

14401 (Sir Purshotamdas Thakurdas) And in the meantime, to manage the exchange as they have managed it during the last three years?

14402-3 (Chairman) Perhaps I ought to remind Sir Charles Addis of similar questions which were asked him on the previous occasion. The evidence was as follows: "What in the meanwhile, should be the policy and the action of the Indian currency authority as regards the exchange?—(A) I think the policy should be as far as possible to mitigate the seasonal fluctuations of exchange, but as regards the more permanent movements, so far as these can be ascertained, exchange should be allowed to take its course. (Q) If one is to eliminate fluctuations that postulates that one has accepted some mean, does it not?—(A) It implies the adoption of some mean which, while it remains steady so far as seasonal causes are at work, is indeterminate as regards permanent or quasi permanent economic effects, that is to say, the mean should be altered from time to time if it is found that trade is permanently tending in that direction. (Q) Do you see any disadvantage to the prosperity of Indian trade in there being uncertainty as to what the mean was to be from year to year?—(A) Certainly it is always to be preferred to uncertainty. I only suggest that the certainty may be purchased at too high a price."

14404 (Sir Purshotamdas Thakurdas) But in reply to Sir Alexander Murray, Sir Charles said "At the 2s rate now on the Statute Book does no harm because there is a free inflow of gold—of course, on private account—and Indians are able to buy gold in the market. I wonder if Sir Charles Addis would mind my asking him whether the 2s ratio does not prevent importers of gold who wish to realise it from tendering it to the Government thus compelling gold to be in fact merely a commodity and whether that is not a serious handicap?—That is of course, the fact. Whether it is a serious handicap or not I do not know. I shall have thought not. I should have thought that so long as gold was free to come in and go out as a commodity that mere fact that it was being dealt with on the market instead of by the Government would not make much difference."

14405 Supposing a bank has imported gold to the extent of £20,000, and that it is a genuine operation and supposing when they have got that gold to Bombay they find the demand for gold for the time being slack that gold which should, on the parity of 1s 6d, be worth 21 rupees 6 annas, or

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[Continued]

whatever it is is at 21 rupees 4 annas 6 pies because there have been a couple of accidents on the railway affecting the import of gold into up country districts. What is the position of that bank? It has either got to make a loss on that imported gold or it has got to borrow on that gold at Bank rate. I am not suggesting something which is imaginary, I have in mind one or two instances where people who held large quantities of gold had to borrow on it at Bank rate when the Bank rate was 7 or 8 per cent, because the demand for gold in the Bombay market for a few weeks happened to be very slack. Is not that a very serious handicap, and would not you, as a banker of experience recommend that state of things should be put an end to as early as possible?—As long as gold cannot be taken freely to the Government and sold at a fixed price, obviously that is a disadvantage to the importer of gold, but the particular difficulties from which he suffers are not peculiar to gold as a commodity, and I doubt if it could be considered a serious handicap from the national point of view.

14,406 Do you think it is a thing which would be tolerated in any country?—That the Government should not buy gold at a fixed price?

14,407 That the Government should have a rate on the Statute Book which prevents genuine importers of gold from tendering it to the Government for currency purposes—the only function of gold on which everybody has absolutely unanimous views?—But they can tender it to the Government now.

14,408 Can they? Would you tender it at 10 rupees to the sovereign, Sir Charles?—That is another question. The first question was, can they, and the answer to that is, yes.

14,409 I suppose the answer would be the same if the statutory rate made the sovereign worth 8 rupees. It is not the possibility it is the practicality of it which matters, is it not?—The practicality matters from the importer's point of view, but the rate, having been fixed at 2s. I do not see what the alternative is.

14,410 The only remedy is to do something which will not drive gold into the position of being a commodity?—To do that is to fix the gold content of the rupee and that is the very point on which I have given evidence to the effect that I think it is better to wait. The particular hardship (I do not think it is a very serious one) must continue until the Statute is altered.

14,411 If you say you do not think it is a very serious hardship, I have nothing more to say. I am only asking whether it would be tolerated in any other country. Do you know of any other country in which gold has been dealt with in the manner in which it has been dealt with in India in the last two or three years?—No. I do not but there are no other countries of which it can be said that the conditions are the same as in India.

14,412 What are the exceptional circumstances in India which justify such a state of affairs which is not in vogue in any other country?—There is one obvious difference, namely that the silver rupee in India enjoys full legal tender. That is an important difference.

14,413 But surely that has no bearing on the present question. There are 90 crores of rupees in the Government Currency Offices. It is more a dead weight than anything else?—I do not agree. In fixing exchange the fact of a full legal tender silver coin circulating along with a full legal tender gold coin does create an additional difficulty.

14,414 Would that difficulty involve keeping a dead ratio on the Statute Book for many years more?—I hope not.

14,415 That difficulty will always be there?—If the silver rupee remains full legal tender.

14,416 Yes. If I remember correctly, you yourself recommended that the legal tender quality of the rupee should not be interfered with?—Yes.

14,417 Therefore that difficulty according to your view will always be there. Would it involve our having an ineffective ratio on the Statute Book for ever?—No.

14,418 At what point would you recommend a change?—I have explained more than once, but I am quite ready to do so again. The point at which I should fix the exchange would be that at which sufficient experience shows that prices in India are properly equated with prices out of India.

14,419 What I meant was, at what point from the legal tender of the silver rupee point of view would you make the change?—At the point at which you determined the value of the silver rupee in terms of gold. With regard to your other question, I gave the legal tender of the silver rupee as an instance of the difference existing between the Indian currency system and the currency systems of other countries, which makes it difficult to put them on exactly the same level for comparison.

14,420 So you think the leaving of the dead ratio on the Statute Book during the last two or three years may have some connection with the silver rupee being unlimited legal tender in India, and may be justified on that score?—No.

14,421 Then it has no bearing on what we are discussing here?—I do not follow.

14,422 The unlimited legal tender quality of the rupee has no bearing on the question of a dead ratio being left on the Statute Book at present?—The question of the full legal tender rupee has no relation to the rate of 2s?

14,423 Continuing the 2s on the Statute Book?—Do you mean that if the rupee were not full legal tender that would be a reason for altering the rate?

14,424 No. I say the rupee being full legal tender has nothing to do with the 2s rate being retained on the Statute Book until now?—I do not think I could accept that. It is a little difficult and would take a long time to explain but I see an addition to your difficulty in fixing the exchange owing to the fact that you have a full legal tender silver currency. It raises the question of the supply price of the silver to the rupee and of the interaction of gold and silver prices. Considerations like these directly affect the question of exchange stabilisation.

14,425 Do you think it is possible that in the decision of the Finance Member to keep this ratio on for the last two years the question of the full legal tender quality of the rupee played an important part?—I think the price of silver played some part in putting the 2s rate on the Statute Book. I am not implying that it is a good thing to have placed it there, but it is better to leave it there until you have considered what you are going to alter it to.

14,426 I am only trying to see whether by leaving it there you are not making things more difficult and more harmful for India than by taking a decision regarding the stabilisation point now?—That is a fair argument and if I incline to the other side it is only because I think that there lies the balance of advantage. It is my personal opinion. I do not press it. I think if you did adopt 1s 6d you could do it perfectly well. I go further and say that I do not think any great harm would result but I still believe it would be better to wait a little longer.

14,427 You are not prepared to say which way the risk lies—whether 1s 6d would prove too high or too low?—No. That would mean that I had a reasoned opinion upon the course of future prices in Europe which I have not.

14,428 You consider the advantages of non stabilisation of the ratio and the disadvantages of having a dead ratio on the Statute Book at present which prevents gold from being tendered to Government are both equally balanced?—The disadvantages of having 2s on the Statute Book?

14,429 Which prevents gold from being tendered to Government and the advantages of the non stabilisation of the ratio. In your opinion they are



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with equally balanced?—I think the balance on the whole is on the side of a day.

14430 The other thing does not strike you as being a peculiar handicap to the currency system of India which should be removed at the first possible opportunity—cutting out gold from being a live thing in expansion of your currency. That does not strike you as being an exceptional handicap to a currency system?—No. I should not have thought that I should have thought that the growing opinion certainly in Europe is rather the other way. People are beginning to think now—even in this country—that the importance of gold as currency has been over-estimated and that upon the whole we can get along very well without it. That opinion is also prevalent on the Continent.

14431 That opinion may prevail among countries which cannot afford to have gold?—I think it goes further than that. There is a body of scientific economic opinion which holds that even if a country can afford to have gold it would be better to use it for other purposes than currency.

14432 No country having more gold than it requires or which is fairly comfortably off in that direction has parted with its gold on that theory. Upon that theory the gold would be centralised and used as a basis for credit but not as currency.

14433 There has been no movement in that centralisation yet has there?—Yes there has. It is only a beginning something actually has been done. I cannot go into details. I must leave it at that.

14434 On March 29th you said this. I suppose the argument is that the price of gold in terms of rupees would be increased and that since the natives think in rupees should reduce the effective demand. There is that tendency but there are other factors at work which suggest that it would be unwise to attach undue weight to this consideration, unless the ratio fixed were substantially lower than at present. What are those other factors which you had in mind?—What I had in mind were the social habits of the Indian people—the degree of importance which they attach to the precious metals as compared with other things.

14435 This is in respect of gold is it not?—Yes.

14436 What you had in mind was that the social habits of the Indian people would have the effect of—?—Of increasing, or diminishing, the demand for gold.

14437 According to the price?—The price would be one factor but the social habits might be another and a very significant one.

14438 Whatever the price the people would take the same quantity of gold?—No. You must balance the two things. There is the demand which arises from the social habits of the people. That may be checked by a rise in price or the demand may be so inelastic as to counteract the effect of the rise.

14439 But the question referred to this. I think—that at 1s 4d gold would be worth in rupees about 74 rupees and odd annas and at 1s 6d it would be worth 91 rupees odd annas. The difference between the two would be about 3 rupees per dola. Would not the Indians buy more gold for their social purposes namely ornaments for the women folk and so on at 1s 6d—the equivalent of 91 rupees odd annas—than at 1s 4d the equivalent of 74 rupees odd annas? Obviously I should have thought the reply would be that they would buy the more the cheaper you made it in rupees?—Is not that my reply?

14440 No. You said. There are other factors at work which suggest that it would be unwise to attach undue weight to this consideration.—The first thing is that as an article becomes dearer or cheaper the tendency is for the demand to decrease or increase. But then social habits may change with regard to the estimation for instance in which gold ornaments are held. If the estimation were higher this might maintain the demand and so counteract

the effect of the rise in price, or conversely if the estimation were lower it might counteract the effect of reducing the demand.

14441 This is one of the old facts?—That is one of the other factors.

14442 I would not say whether there were any more—another factor is a rise or fall in the price of other commodities. The choice may be hovering between the purchase of gold and some necessary. You have to balance the relative demand for one or other.

14443 If the demand is hovering between gold and some article of necessity, I should have thought the lower you make the price of gold the farther you took the man from the indulgence of buying his necessities?—It is supposed, the price of the necessary is moving equally rapidly in another direction.

14444 Lower than still?—Yes.

14445 Then the question is whether it could go lower than the price of gold. There is a limit to which necessities can go. A grower cannot go on growing at any price. You can make gold available at any price, but the grower cannot always grow at any price—I never suggested that the price of gold might fall to infinity.

14446 But suppose at 1s 6d as far as the grower is concerned the return for his crops is very near the point?—It depends on how far the crops are governed by world prices. The market price is determined by other considerations than the cost of production to the grower.

14447 It might be so determined for the first year, but it would not be determined very long apart from the cost of growing would it?—The price would finally depend upon the cost since there is a point at which production would cease but that might take a long time.

14448 I only wanted to get at the other factors which you had in view?—I could mention others but social habits is the important one.

14449 (Chairman.) You said in reply to a question that in your view the currency reserves in India were ample. We must read into that I suppose that there are ample in relation to the present liabilities and the present obligations of the currency authority?—Yes.

14450 We have still to obtain your assistance on the question of the Central Bank and we shall be glad to have some time in order to explore that important topic. Will you be able to come again?—We shall be pleased to come whenever you desire us to come.

14451 (Sir Reginald Maud.) Mr. Governor may I refer for a moment to your dream in which you looked forward to the restoration of gold circulation in this country. We have received a good deal of evidence to the effect that gold circulation is not a desirable thing and that the present currency system in this country is theoretically preferable. Sir Charles Addis referred to it just now. Some of the advocates of the introduction of a gold circulation in India have said that they only regarded it as a temporary phase—that they regarded a note circulation as the ideal circulation and that they proposed to introduce gold currency in India with a view eventually to withdrawing it and reverting to a note circulation. Can you tell us why you regard a gold circulation as a desirable thing in itself?—(Mr. Montagu Norman.) I do not think I do.

14452 (I thought you did?—No. I do not think I said so. When I was a kid as to the possibilities of a gold currency in this country I said that beyond my lifetime conditions might make for its return so to speak naturally and automatically though my personal belief was that a gold currency would come to be looked upon as almost a sign of backwardness as well as being uneconomic and that at any rate the generation to which most of us in this room belong would not desire again to carry sovereigns in our pocket in preference to the more convenient notes. That is my feeling.

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14453 Then your dream will never be fulfilled?—I cannot say. I do not attempt to prophesy as to what will happen after our lifetime. If I had my personal choice I should always prefer to carry the reluctant note rather than actual coin, and I think it has economic advantages as well.

14454 I thought from your previous replies that you considered gold currency a desirable thing?—No. I do not think I said that. You can see what I did say. Have I answered you now?

14455 Yes, I think you have made it quite clear in connection with the system of remittances from India you said you preferred the present system of purchase of sterling as against the older system of tenders, and you mentioned, I think, that secrecy was a desirable thing in conducting exchange operations. We have received complaints in India from influential bodies against that system on the very ground of the secrecy which is attached to it. It was represented to us that Government in making remittances is not in the same position as a private remitter, in that it has not to consider merely getting the best terms, but has also to consider the effect of its operations on the exchange of the country, and that the Indian Government is in a peculiar position in that its remittances have practically a dominating effect on exchange. For that reason the opinion has been expressed that Government ought to continue to conduct its remittances in a more public way. I would like to know your answer to those representations?—For myself I disagree entirely with the representations you mention but I think the remitting authority should have the right to choose the method of acquiring sterling or rupees, as the case may be. The remitting authority—at present I do not say who it should be—should have the right of determining, for myself I prefer the method which has been employed during the last year or two and as the regular method I strongly recommend it.

14456 You do not attach any importance to the fact that Government dominates the exchange?—No. I do not. I attach importance to it perhaps but it does not alter my opinion.

14457 There is one other question which I want to ask Sir Charles Addis in connection with what Sir Parashotamdas Thakurdas asked just now. Sir Parashotamdas Thakurdas drew attention to the fact that at present gold is only imported into India as a commodity, and that it is not practicable to present it to the Government currency offices for exchange into currency. You, Sir Charles said that you could not name any other country in which similar conditions prevail. Does not that condition prevail in every country in which the current rate of exchange has depreciated and has fallen below the legal rate?—(Sir Charles Addis.) Your question is whether there are countries which refuse to accept gold at the market rate.

14458 No countries in which gold is so much more valuable as a commodity than it is at its legal monetary value?—Yes, obviously.

14459 If you took gold to France or Belgium, would not you dispose of it as a commodity and not take it to the Government offices or banks?—Quite so.

14460 Then the conditions in that respect are just the same as in India?—I would not like to say they are quite the same because you do have the difficulty of the 2s. rate in India.

14461 The current rate of exchange in India is below the legal rate?—The difference is that an artificial rate has been fixed by the Government in India. In other countries it is paper currency that has run away from the gold coin. It is not an important distinction but it is a distinction you must allow for what it is worth in favour of Sir Parashotamdas Thakurdas.

14462 But legally the position is the same?—Practically the thing is the same. Technically it is different because no difference was made in the gold content of the Napoleon. The same cannot be said of the rupee, and that does make a difference.

14463 But practically the conditions are the same?—Practically the conditions are the same.

14464 (Sir Henry Strakosch.) It has been suggested by one of the witnesses that the withdrawal of 103 millions sterling estimated to be the amount needed from the world's gold reserves to introduce a gold currency 'need have no effect on the supply of credit and on prices. Any effect would be the result of an avoidable policy.' I am quoting the witness's own words. The suggestion behind that, of course, is that in this country, for instance, a substantial reduction of our gold reserve need have no effect upon the supply of credit and the price of credit if the Bank of England so wished. Would you agree with that?—No.

14465 You would rather say that a heavy withdrawal of gold from the reserves of the Bank of England would have a natural repercussion upon the market for credit?—Essentially.

14466 Quite independent of what the Bank of England wishes or does not wish?—I do not know about "quite independent."

14467 Largely independent?—It is partly a question of the effect on mentality.

14468 That is it. You would agree that if there were large withdrawals the commercial and financial community would without any suggestion from any other quarter, draw their conclusion and contract credit?—Undoubtedly.

14469 Under the currency legislation in force in this country at the present moment, the Bank of England note and the currency note are convertible no longer into sovereigns but into gold bullion?—Yes.

14470 Does the Bank of England in practice cash notes in sovereigns?—It does not in practice. I do not mean to say that occasionally an individual is not obliged. We do sometimes oblige an individual but as a general practice the Bank does not pay its notes in coin.

14471 One sees in some of the publications that sovereigns have left the Bank of England for some destination abroad?—I beg your pardon I misunderstood you.

14472 Then the Bank does supply sovereigns?—Yes.

14473 That is to say the Bank would as a rule not supply sovereigns if they are needed for internal purposes but would supply them if they were needed for external purposes?—Speaking from memory up to the present time the Bank has always supplied sovereigns in exchange for bills for export to those places in which sovereigns are customarily used. Does that answer your question?

14474 Yes. It does not as an inviter of practice pay out sovereigns for internal purposes?—No. But I say that if you come and ask for a few sovereigns you may obtain them.

14475 Suppose I wanted a hundred thousand sovereigns?—You would have to satisfy me.

14476 Would you regard the current system in force in this country at the present moment as effective in stabilising sterling in terms of gold as the pre-war gold specie standard where the internal currency was convertible into sovereigns?—I think I should.

14477 Is your wide experience in what extent it is safe to rely upon gold in circulation being available for external payments in case of exchange weakness?—I think that mainly depends on the mentality of the public as to which you can form no opinion in advance—if I have understood your question aright. If you convince the public that a national emergency has arisen—as occurred twelve years ago—they will compete with one another to surrender to the Bank what they have been told can be employed to the advantage of the nation. But that is a question of mentality.

14478 So that in a real crisis one could not rely upon gold in circulation to help you in maintaining the external value of your money?—You could only

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between the figures that you have been good enough to read and the proposal which is before me. The figures which you have been reading represent gold imported on private account as and when it suited the individuals to purchase that gold. If it suited them, they bought it in a week, in a month or in a year. If it did not suit them, they left it alone. The proposal before us, the only proposal with which I am familiar, is that you should recommend an undertaking to acquire a certain amount of gold during an unknown period, and should at the same time, dispose of a certain amount of silver. I adhere to what I ventured to say last time I was here.

14515 You think the proposal is of a different character?—Of a different kind.

14516 I will read you an extract from a memorandum\* submitted by Sir James Wilson, who had a long Indian experience and was Finance Minister for the Government of the Punjab—Submitted where?

14517 (Chairman) This is a memorandum we have received from Sir James Wilson.—To this Commission.

14518 Yes, in this connection.—Very well.

14519 (Sir Moneckji Dadabhai) It was an address which he delivered in February 1923. It was a paper which he presented before a public body, I think—May I ask was this address in relation to the proposal which has been put before me as a witness?

14520 (Chairman) No, it cannot have been that.

14521 (Sir Moneckji Dadabhai) Not exactly.

14522 (Chairman) We had better look at Sir Moneckji's quotation and see what it is. Will you read the passage?

14523 (Sir Moneckji Dadabhai) Yes. I want to place certain figures before the Governor and see whether they will enable him to qualify his opinion.

14524 (Chairman) This is a letter from Sir James Wilson, K.C.S.I. to this Commission, in which he submits "For the information of the Royal Commission copies of (1) a Paper on 'Indian Currency and Exchange' which I read in February, 1923, to the Economic Society of Edinburgh, and (2) an article on 'Indian Currency Policy' which I am sending to the *Asiatique Review*."

14525 (Sir Moneckji Dadabhai) The heading is 'India's Stock of Gold and Silver,' and Sir James says "From time immemorial India has been a great absorber of the precious metals. From 1835 to 1919 India imported net £316 millions worth of gold of which more than half was imported since 1900." That must be a mistake, it must be "1907." Then I would draw attention to this passage "I reckon that at present the quantity of gold in the possession of mankind is about 1,000 million ounces—enough to make 4,200 million sovereigns—and that of this quantity India possesses about 100 million ounces—about one tenth of the world's total stock"—Of gold?

14526 Yes. And, as less than six million ounces is in the Government Treasury nearly the whole of this large quantity is held by the people in the form of ornaments or hoarded coin or bullion. During the five years before the war she was absorbing on the average five million ounces per annum—nearly a quarter of the world's new production. Then later on he says "The total quantity of gold held in India includes nearly 100 million gold sovereigns, which before the war were legal tender at the rate of 15 rupees per sovereign and were coming into circulation especially in the Punjab. But now that they have been made legal tender for only 10 rupees in accordance with the Secretary of State's policy, the sovereign is no longer in circulation in India because no one will tender it for 10 rupees when he can get for it in the bazaar over 15 rupees. For the time being, therefore gold, even in the form of sovereigns is out of the reckoning as regards circulation." With this information as to the hoards of gold in India,

with 100,000,000 sovereigns in the country probably hoarded which would come out if a gold currency were introduced, do you still maintain the view which you have taken about the difficulty of introducing gold currency in India?—On the proposal put before me?

14527 Yes.—I do.

14528 Then assuming that the Commission decides to go in for some sort of gold currency in India, what would be your recommendation, whether we should have sovereigns or whether we should have a distinct Indian gold coin or gold sovereigns?—I do not know sufficient to make a recommendation on that point. I am afraid I have not studied it.

14529 Will you have any objection to the establishment of a gold Mint in India for the purpose of coining sovereigns in case the Commission decides to recommend a gold currency?—Does not it exist already?

14530 If the coinage is not gold the sovereigns are not coined. You would permit coinage of gold?—I do not think I can answer that question. It does not concern me.

14531 It does not concern you as Governor of the Bank of England?—No.

14532 As Governor of the Bank of England have you any objection to India's establishing a Mint and coining gold sovereigns?—I have not considered the question. The establishment of a Mint for that purpose does not concern me directly at all.

14533 But speaking from your experience, can you tell us whether you have any objection?—I should have to consider it. I could not give you an answer right off.

14534 You are not in a position to say?—No.

14535 The Dominions are allowed to coin sovereigns, are not they?—Some of the Dominions coin sovereigns. I believe—the Union Government and Australia, I think, does.

14536 Do you differentiate the case of Australia from India in any way?—I do not think I should, but I was not concerned with the Australian arrangement.

14537 You would not differentiate?—No.

14538 I want to ask you one or two questions about stabilisation. From what you have stated this morning to Sir Parnbottom has Thakurdas, as well as from your previous statement, I gather that your opinion is that we should stabilise as early as possible. But Sir Charles Addis thinks we should not stabilise it. These were your words. You do not think we should do it at present?—Did you say my words?

14539 No. Sir Charles Addis' words. You did not take a view much different, but as you have given advice to all the other countries to stabilise as early as possible, in conformity with that advice you would like India to stabilise too?—I am entirely in favour of stabilisation.

14540 I gather from you, as well as from Sir Charles Addis' evidence, that this is the psychological moment for stabilisation?—I am of that opinion.

14541 In your opinion?—In my opinion.

14542 In your opinion it is? And in Sir Charles Addis'—I gather it is not. (Sir Charles Addis) It is not.

14543 In case Sir Charles Addis' opinion is accepted by the Commission—I am assuming that—would you think that the Commission should recommend the option of a provisional rate for a period of 12 months during which time internal prices may be adjusted to external prices as stated by Sir Charles?—(Mr. Montagu Norman) Are you addressing me or Sir Charles?

14544 (Sir Moneckji Dadabhai) I am addressing Sir Charles.

14545 (Chairman) We ought to remind Sir Charles of his answer on that point. It is in paragraph 13733. "If one is to eliminate fluctuations, that postulates that one has accepted some mean, does not it?"—It implies the adoption of some mean

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14574 The outlet and inlet for legal tender?—It is not.

14575 As the holder of Government balances?—Not entirely, I believe, but mainly.

14576 Entirely I think?—Is that so? I thought there were a great many holdings in Treasuries in opposition, so to speak.

14577 I think substantially it is?—Substantially.

14578 As holder of reserves of other banks, it is not?—No.

14579 As agent for the Government's financial operations?—In part only.

14580 As to your sixth function, which is to act as currency authority in the expansion and contraction of currency and the maintenance of stability, it is not at all as I understand it. That is so, is not it?—I believe so.

14581 As provider of emergency credit through the means of re-discounting, how would you say that the function of the Imperial Bank stood in regards thereto?—I am not qualified to tell you precisely, but I believe it does render considerable assistance, but that such assistance as it is able to render is very much over-looked by the operations of the Government, thus there is divided control with no assurance of unity of policy.

14582 So that in order to make the Imperial Bank function as a true central bank, if that course were to be adopted it would be necessary to transfer to it the note issue to make it the sole inlet and outlet for legal tender, to provide for it holding the reserves of other banks to make it sole agent for the Government's financial operations, particularly its external operations, and make it the currency authority in respect of its position as holder of the note issue and the same regard should be paid to its position as re-discounter and provider of emergency credit?—And I mention specifically the fact that it would need to be the exchange market which I think it is not.

14583 That would be consequent upon its being agent of the Government for external transactions?—Yes.

14584 I interrupt you when you were about to tell us in what respect should the present charter of the Imperial Bank be altered at the moment when you said that it would not be your recommendation. Might I then ask what would be your own recommendation on the broadest lines as to the provision and the establishment of a true central bank?—I believe the loss to India and especially to the spread of banking facilities throughout India would be great if the Imperial Bank were subjected to the restrictions usually regarded as proper in the case of a central bank. I should therefore like you to consider whether your end would not be met (and the end of the proprietors of the Imperial Bank who deserve to be considered) if the Imperial Bank were to renounce its special privileges and to receive freedom from its special restrictions and a new bank were to be set up to acquire those special privileges and to perform the other functions which I have mentioned to you. The new Bank to obtain its capital from the existing proprietors of the Imperial Bank who would thereby be left where they are to-day. The question of management and staff to be left for adjustment by arrangement between the new Bank and the Imperial Bank. In that way I believe that you could do what has been done with success in other countries. You could establish a central bank which would function forthwith and operate to the great advantage of India at home and abroad. You would not thereby lose what I believe to be the great advantages which the Imperial Bank has been able to grant to India during the last few years nor would you force the Imperial Bank to give up the traditions inherited from the three banks of which it is an amalgamation. I look upon this solution as greatly to the benefit of the future spread of banking throughout India.

14585 The Imperial Bank, as you are aware, discharges important functions as a Commercial Bank. Considering the knowledge that you have of those functions, I gather from what you have told us you would find a difficulty in reconciling the discharge of those functions with the position of a true central bank?—Yes.

14586 Are those difficulties insuperable, or is it possible to reconcile the commercial activities of the Imperial Bank with the activities of the true central bank?—I do not think it would be advisable to combine them—to continue them as a permanent arrangement.

14587 You mean that for a transition period it may be possible to make some sort of compromise?—It might be.

14588 But do you look upon that as a desirable method of approach?—No, for myself I should prefer to leave the Imperial Bank with the business and traditions, which to a great extent it inherited from the three other banks, as far as possible unchanged. I believe the maintenance of the activities, the customs, the business of these three banks and their successor throughout India and especially in remote India, would be a great advantage to India, and I should be sorry to suggest anything which would in any way interfere with it.

14589 Taking the matter from the other point of view, if the Imperial Bank is to function as a central bank, it would be necessary, as I gather from your answer, to impose fresh restrictions upon its commercial activities?—Yes. Difficult questions would arise in any case.

14590 And those would militate against its efficiency as a commercial bank?—I think so.

14591 In particular, its great function of developing the banking system in India?—Yes, and in particular in those remote places where it would presumably be the only banking office. I am not thinking of the big seaboard towns but I am thinking of places in the interior, where the Imperial Bank has been for the last few years the pioneer, and has done most valuable work.

14592 You make the expression of your views very clear to me. I take it that it is your view, that by seeking to combine the two functions you get neither discharged with the same efficiency as if the functions were separate?—That is right.

14593 Following up your reply, assuming some such division of function as that which you have suggested, let me ask you about the constitution of your proposed central bank. Would you tell us anything from the point of view of general principle as to what the position of the governing body of a central bank should be?—As to that I have quite definite views if I may state them.

14594 In your phrase?—Yes of all I will begin by stating also I think they should not be. They should not be members of Governments or legislatures or politicians.

14595 By members of Governments do you mean Ministers or high officials also?—I mean both although I have the word "official" lower down in my list.

14596 Please proceed?—Members of Government or the legislature who in designations would, I understand embrace all branches of Governmental authority in India, that being the sole part of my suggestion. I would also exclude Public Officials, Bankers and persons identified with politics. With such persons excluded I should proceed to recruit the whole body from amongst men of the highest standing engaged in active business in India.

14597 In your view is it desirable that there should be some co-ordination on between the policy of a central bank and the general policy of a Government?—I think it is of the utmost importance that the policy of the bank and the policy of the Government should at all times be in harmony—in complete harmony as possible. I look upon the bank as having the unique right, to offer advice and to press

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the figures are now but they used to be estimated as between four and five crores. I have been told they are about nine crores per annum at the present day. If the absorption of rupee currency is at the rate of nine crores per annum I cannot see that we need face the expense and disturbance involved in the proposal to melt rupees and sell silver. I do not see that we need be precipitate in reaching the ultimate goal of a full gold currency. I believe provided that the rupee is stabilised on a gold basis to-day, and provided that either now or in the very near future gold is made freely available in substantial quantities, we might wait for the normal contraction of the rupee currency through the annual absorption of the currency before going to the full gold currency which we have in view, even although it may never be fully reached rather than resort to the drastic expedient of melting down large quantities of rupees, with all the disturbances it entails and with the possibility that at no distant future date, having melted down your rupees, you have to start coming them again.

14668 It has been put to us that silver is a great Indian interest because, for instance, of the large holdings of silver amongst the people of India as a store value, that this proposal for the dethronement of silver would inflict a severe shock on the silver market and on the value of silver, and that that requires a very great deal of consideration from the point of view of the general interests of the Indian people. What is your view upon that aspect?—I think that is an argument which is entitled to the gravest consideration in view of the enormous quantities of silver which are held in India, but my criticism of those proposals would be that they are more drastic—the dethronement of silver and the possible slump in the price of silver—than is demanded by what I call a reasoned view of the Indian currency situation.

14667 Turning to the gold aspect of that scheme, it is estimated as you see that the amount of gold required would be some £103,000,000 in the course of some 10 years. Are you prepared to express any opinion, Sir Stanley, as to the effect of that extra demand upon gold markets and gold values in the world at large?—That is a consideration quite beyond my knowledge or competence.

14668 As I understand it I have gathered the impression that your general view as regards that scheme is, to put it in a word that it goes too fast?—It is.

14669 Let me continue your memorandum at the point at which I made a diversion. You deal in paragraph 2 with the question of the ratio. Let me tell you a general difficulty which I felt about your argument and see if you can kindly rectify me in it. You argue as I understand Sir Stanley that we ought to adhere to an established legal standard as regards the rupee, and that is the 1s 4d. When looking at a standard of that sort you must have regard to the standard *de facto* and *de jure* and it has been put to us that the *de jure* standard is 2s and that the *de facto* standard is 1s 6d and that 1s 4d is neither. I rather wanted to understand from you as you are able to say that the 1s 4d standard is the established legal standard?—I would venture to put it slightly differently from the argument you have advanced. We say the *de jure* standard is 2s. Is not the argument that the *de jure* standard is 2s something like the ancient statutes which lay it down that a person shall be hanged drawn and quartered for the crime of high treason? It is a *de jure* standard which never had any existence whatsoever. It had no existence in law really because it was only waste-paper and certainly it had no existence in practice. Therefore with all respect I cannot attach the slightest importance to any argument based on the fact that owing to a combination of tragic events the 2s ratio is the *de jure* standard. Therefore, I come back to the two practical standards, as we may call them.

The 1s 4d standard was the definite goal of Indian finance and currency policy from 1893 to 1919. It was the goal pursued between 1893 and 1908. It was definitely recommended in 1899. It was accepted in 1898 and it was practised from 1899 onwards. It was maintained until 1917 when it broke under the shock of war—but only to a very slight extent. The real serious break in the Indian standard was not during the war it was after the war. As I read Indian currency history it is that if the Government had not been led away by the will-of-the-wisp of the 2s ratio but had done what I ventured to suggest before the 1919 Commission namely pursued the true line of policy that having followed silver up they should follow silver down there is not the slightest doubt, it seems to me that we should have reverted certainly by 1921 to our long established legal standard of monetary payments which is 15 rupees to the sovereign and 1s 4d to the rupee.

14670 If I may interpose here is not the effect of the first part of your reply that we ought not to look at the legal standard—what is merely legal because undoubtedly what is legal now is 2s?—That is so.

14671 So we must really get rid of that word "legal" in our search for a basis?—I do not want to be meticulous but I would call it the legal fiction standard as against an established standard of money payments which for all those years was 15 rupees to the sovereign.

14672 I can understand your argument in that it appears to me to be based at first upon two things—upon a reference to substantial facts and merits and a reference to law but it is as regards the reference to law that I feel the initial difficulty because if it is law that the rupee is 2s then it cannot be law that the rupee is 1s 4d?—I fully appreciate your point so we will call it the established standard of monetary payments from 1898 until 1917, and leave out the word "legal" which I quite see is not quite correct.

14673 Then we come to the fact that it was the established standard from 1893 to 1917. Let me ask you just one or two particular questions upon that. You say that the ratio was the legal standard of money payments from 1898 until the disturbances caused by the war. When those disturbances hit silver Indian exchange fell approximately to 1s 4d but it not only fell to 1s 4d it also fell a good deal lower than that and subsequently rose and passed above that level?—That is so but the fall below 1s 4d was merely fractional in comparison with the rise above 1s 4d.

14674 That was so was it but it did not show any greater tendency to remain at 1s 4d in preference to various other rates selected then. I see it went down to 1s 3d and then it rose steadily up to a 1s 6d level again?—But I think I should be prepared to argue that if the Government of India had not frittered away—(I do not use the phrase offensively)—the very large gold resources which they held at the close of 1919 and which if my memory is right amounted to something like 108 millions sterling the maintenance of exchange at 1s 4d gold would have been. I will not say within their competence but would have been a mere trifle in comparison with the efforts they had to make commencing in 1907 and again I think in 1911 to sell reserve councils in order to maintain exchange from falling below gold export point.

14675 What I wanted to clear my mind about was whether in your opinion since the departure from the long period of 1s 4d the subsequent movements of exchange as they are on record show any tendency for the rate to gravitate towards 1s 4d because the figures at first suggest that it is not the case?—I should like to suggest for your consideration that the rise of the Indian exchange above 1s 4d is due to wholly exceptional conditions. It is due to the fact that we have had four bumper years or pro-

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[Continued]

you express any opinion about that?—I left Bombay on the 27th March and the exchange was weak then. You could cover exchange at 1s. 6d., but the fall below 1s. 6d. occurred after I left so I cannot express an opinion. Up to March 27th, however, I heard no talk of the weakness of exchange being due to speculation.

1468. I think it has also been announced in the Press that no Reserve Councils were, in fact, actually sold but that the mere offer was enough to steady the market?—So I gather.

1469. Would not that indicate a speculative rather than a substantial movement?—I should not like to go quite as far as that because there again you come back to the principle—what you can get you do not always want. If you do not know whether you can get Reserve Councils, you cover your possible requirements in advance.

1470. I now pass to your paragraph No. 5 where you deal with the controlling authority. What is your view upon the contention that under the present system the currency and the banking reserves of the country are divorced and that it would be more economical and desirable in the interests of trade and commerce, to amalgamate the two reserves in the hands of an expert banking authority in touch with the commercial needs of the country?—Are you speaking of the question of the Imperial Bank taking over the Note issue?

1471. The control of the note issue and the currency mechanism by a banking authority, I would like to generalise the question before referring to the Imperial Bank.—It seems to me that this question of the note issue being taken over by a banking authority is one which does not admit of any answer. The note issue has now attained very large dimensions. It has great stimulus and it commands wide confidence. That has only been attained by very slow steps. Those of us whose memories of India go back for some time realise how very painful and anxious were the steps by which this position has been attained. I for one am frankly very fearful of any disturbance of the authority behind that Note issue which may weaken confidence in it. I do not think that any banking authority would carry the same measure of public confidence as the Government Note, stamped with the King's head does among the great mass of the Indian people.

1472. Perhaps there are really two questions involved—first the status of the Government Note (or of a Bank Note bearing the name of the Government of India) and secondly the authority controlling the Note issue and the currency system. What you said rather applies to the first head, does it not, that is, the actual status of the Note as being a Note of the Government bearing the name of the Government?—That is so. Ten or 12 years ago it used to be said by those in authority that if the Presidency Banks took over the Note issue they could double the Note circulation. It might have been true then but I very much doubt if it is true now. I think the Note issue in the last 10 or 12 years has been so efficiently handled that if it were put into the hands of a Bank it could not or would not be likely materially to expand at the present time. I think that people have very little to complain of and much to admire in the ability and the efficiency and the elasticity with which the Note issue has been managed for some time past. On those grounds *per se* I see no object in and many disadvantages in a change to a banking authority. I venture to suggest that one is only justified in making that change if it is bound up with other and larger issues. Another and larger issue which I have in mind is that I do attach very great importance to the Imperial Bank taking over the management of the remittance business of the Government of India and if it is necessary for that purpose—I do not say it is but if it is—that the Imperial Bank should have the management of paper currency that puts the matter in a different light but if the

Imperial Bank can carry out the management of the remittance business of the Government of India (I am speaking of remittance to London of funds required by the Secretary of State and not the accretions round that national principle) without managing the paper currency then I see very great advantages in leaving the Note issue where it is now and that is in the hands of an efficient Government Department carrying the full imprimatur and credit of the Government as a Government.

1473. But, passing between those two questions to which I have referred—that is the status of the Note as a Government Note or a Bank Note and also to the extent would you have any deduction upon the experience of other important countries, in which we know that, a cost without exception, the control of the Note issue and of the currency is entrusted to a Central Bank.—Absolutely none. I do not attach the slightest importance to the experience of any other country unless we can establish the premises that the political, historical and social conditions of that country are comparable with those in India.

1474. There is a great variety of social, political and historical conditions in all civilised countries of the globe. What are the essential Indian conditions of our which distinguish India from all these other countries?—In India the presence of Government stamps increases rapidly higher than any Bank even the Imperial Bank of India. To the Indian people the Government as a Government is the great and dominant force in the country and I think a weight and confidence attaches to a Government Note which a Bank could not hope to be able to build up for many years if ever in our time.

1475. The further point apart from the status of the Note is the question of the control of the Note issue and currency system. A considerable volume of evidence has been given before us in India expressing what I must not hesitate to call profound suspicion of the Government as the controller of the national currency on the ground that it is manifestly the case in a manner which is suspected to be a threat to the best interests of India. We have to recognise that this evidence has been given. What is your opinion as to the weight which should be attached to it?—If I may I would divide that into two heads. There is a great deal of criticism of the policy of the Government in currency and exchange matters—not of the management of the Note issue but when we are speaking of Government we must remember the dual composition of the Government of India. There is the Government of India in India—the Viceroy and the Governor-General in Council and the Legislature—which is an authority which we know and an authority with which we can deal and an authority with which we are in contact. Then there is the Secretary of State and his Finance Committee six thousand miles away. That is an authority we do not know an authority with which we cannot deal an authority with which we are not in contact and an authority about whose actions we know nothing. They may be like Caesar's wife but we do not know. I think—I say this with a full sense of responsibility—that a great deal of the suspicion of the policy of Government in currency and finance matters is not due to the acts of Government in India as the Government of India, but is due to the measures taken by the Finance Authorities in London even although they may be the wisest possible.

1476. You express an opinion in the next paragraph in favour of Notes of small value such as the 1 rupee Note—I do.

1477. You say that they form a line of defence against any manipulation of the silver market in face of a demand for the coining of rupees. I am not quite sure that I quite follow the suggestion there. Will you expand it?—I think the 1 rupee note is a very marvellous instance of the confidence in the note issue. The 1 rupee note was not issued except at a time when there were great difficulties in converting

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[Continued]

order to support exchange would that in your opinion be conclusive proof that the rate of Rs. 6d. had not adjusted itself?—No, it would not.

14712 Let me ask you would the amount affect the question? Whether it was one million or fifteen millions which was sold would it matter?—The sale of several millions of reserve councils at that rate would not be to my mind definite evidence that prices had adjusted themselves at that rate, because my point is that this demand for reserve councils has arisen from a perfectly trifling change in the trade conditions of India—a change which is absolutely insignificant in comparison with such changes as we have had in the past and as we may have in the future and which we ought to provide against in the future. Therefore the sale of even a certain number of millions of reserve councils could have my opinion on that absolutely unaffected.

14713 The very fact that the Government of India had in 1914 a notification, while the whole question of the ratio is being considered by this Commission, shows that the Rs. 6d. has not reached anywhere near the stage of stabilization as far as can be judged?—That is my reading of it. Personally I must say that I noted the action of the Government with very great regret. I think it would have been a considerable help to those of us who are striving towards the great goal of stability if exchange had been left alone so that we could have had more definite experience as to how far prices had adjusted themselves to the current rate.

14720 And what the natural ratio is under the present circumstances—unmanipulated and unaided by anything artificial?—That is exactly what we are in search of.

14721 You were asked whether you would express any opinion as to the adequacy of the reserves at the disposal of the Government of India or not, and I understand you to say that that was a point on which you were unable to express an opinion?—I would qualify that to a certain extent by saying this. Our experience shows that under the great shock of 1907 and again in 1914 the amount of reserve councils wanted was very small and only for a temporary period which seemed to my mind very strong ground for believing that prices and business had adjusted themselves round about the then ratio, but if we are going to take a higher level of exchange, round which we are not satisfied that prices have adjusted themselves, the amount of the reserves at the command of Government might need to be very much larger than there were in those days.

14722 I infer from what you have just said that in your opinion the higher the ratio the bigger the risk and the larger would be the reserves required to maintain the ratio in case of anything adverse?—That would be my general conclusion.

14723 You were told that if the rupee were established now there would be no means left of mitigating a future shock to gold prices. In which direction would such a shock to prices be liable to mitigation by an adjustment of the ratio? Do you see the risk in a fall in gold prices or a rise in gold prices?—In case of gold prices falling.

14724 Therefore it is possible that those who recommend that no steps should be taken in regard to stabilization at the moment apprehend that in case they recommend Rs. 6d. as the ratio it may be difficult to maintain Rs. 6d.?—That would be my conclusion.

14725 In fact it would be an indication of confidence in their recommendation of Rs. 6d.?—That is how I should construe it.

14726 Hence they recommend waiting longer. You say in paragraph 2 that no disturbance of the permanent ratio for India should be allowed except on proof of overwhelming necessity. Will you tell us what in your opinion such an overwhelming

necessity would be?—I should say proof of the impossibility of maintaining it at the 'mg established standard.

14727 That is, proof of the impossibility of bringing it up to the permanent rate in case there was a depreciation, or proof of the impossibility of preventing it from rising above that rate?—That is so.

14728 I take it you have been in close touch with the operations of the Government of India since September, 1921 or thereabouts. Are you aware that Rs. 41 gold has been exceeded owing to two or three circumstances, firstly, that gold was cut off from tender to the Government, and secondly, the natural forces to which you refer, namely, very good monsoons during the last two or three years?—Yes.

14729 Do you agree that these conditions would have played a very important part in the rupee going over to Rs. 41 and touching Rs. 61?—I think they have been the deciding factors.

14730 Therefore those who maintain that Rs. 6d. could have been exceeded but for Government manipulation, overlook the fact that Rs. 6d. itself has been possible from Rs. 41 because of Government manipulation?—I would not go quite so far as that. I do attach the very greatest weight to what I call the abnormal balance of trade—a continuance of which I think we have no right definitely to expect. That is what fills me with doubts and apprehensions at the present moment. I do attach very great importance to this remarkable balance of trade in favour of India arising from a continuance of good monsoons and an active demand for all our produce.

14731 It has been suggested by some witnesses that as one of the factors in what you call the overwhelming necessity justifying a change from the ratio of Rs. 41, the Commission should take into consideration the question of the cost of living and pertinent index numbers. Have you any views on that?—I should attach no great importance to the Indian index figures. That is not merely scepticism. I was Chairman of two Industrial Disputes Committees in Bombay, and we found that not a single person accepted the published Government prices. It seems to me that index numbers based on figures which nobody accepts may possibly be a little misleading. That is one thing. Secondly, I am not disposed to regard currency as an instrument to be fabricated and manipulated for the purpose of regulating prices. I think that is putting the cart before the horse. We have to consider our currency as it is and prices and trade must adjust themselves to currency—and not currency adjust itself to prices and trade.

14732 In fact it would be correct to infer from your evidence that the case for the change from the permanent ratio of Rs. 41 has to be made out by those who recommend it and not by those who wish to stick to the old ratio which has served us so well from the years to which you have referred—from 1899 to 1917?—That is my profound conviction.

14733 You say in paragraph 4 that the gold standard reserve should be located in India and held chiefly in gold. When you say "chiefly," are you in a position to tell us approximately what your ideas are of the proportion?—If you ask my own personal opinion I should say that the whole of the gold standard reserve should be held in gold. I use the word "chiefly" as a sacrifice to those weaker brethren who boggle at that idea. I think the argument which is frequently used in connection with the gold standard reserve—that sterling securities are as good as gold—is absolutely untenable. In times of crises nothing is so good as gold, and I would prefer to see the whole of the gold standard actually held in gold.

14734 May we take it that instead of "chiefly" you would say "wholly" in gold?—Yes, wholly in gold but recognising that we have to deal with the situation as it is, and that we do not want any violent and drastic change the conversion should be arranged with prudence. But that should be the objective.

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[Continued]

14737 Regarding gold currency I see that the Fowler Committee was greatly impressed by the evidence of Lord Rothschild Sir John Lubbock and others to the effect that any system without a visible gold currency would be looked upon with distrust.—That is so

14738 In your opinion any system without a visible gold currency would still be looked upon by the Indian public with distrust?—I don't doubt, I think it would

14739 Therefore what you suggest is that the Commission should take a substantial step in that direction, leaving it to the people to adopt gold currency at their discretion whenever the reserves are adequate?—That is so

14738 You expect that when the gold reserves are located in India and the people see that they are there it is possible that the Legislature of the day may say "We do not want to go in for this luxury"?—I think it is exceedingly probable

14739 (Sir Reginald Vant) One of the reasons you gave for advocating a gold currency is that India is accustomed to a full value coin?—Yes

14740 It is a fact, is it not, that India has not had a full value coin for about 30 years?—Approximately so

14741 So that you can hardly say that in the present day they are accustomed to it. They have learned to do without it.—But would not it be equally true to say that as the rupee became (to use the word for the sake of argument) more and more a token coin so has India turned more and more to the absorption of gold because the natural craving for full value could not be satisfied in the rupee therefore they have taken to the one metal in which it could be satisfied

14742 That is a point. That is just what I was leading up to. Do you think that the rupee has become discredited by ceasing to be a full value coin?—I would not like to use so strong a term as "discredited," because I think the rupee as currency still functions as efficiently as ever it functioned in past history

14743 Let us put it "has fallen into disfavour"—May I put it in this way? I say the rupee is less popular as a store of value and that gold is now preferred for that purpose because the rupee has less than its full value

14744 Do you think that people are actually substituting gold in hoards for rupees?—Undoubtedly

14745 That process has been going on, and we have had some evidence about it.—I can give you a curious point to show how it arises. We had been away on leave and my wife's ayah had been on half pay. She had to have 60 rupees half pay. It was in the days when the sovereign was current and she said "Please memashib, give me six sovereigns and "What do you want six sovereigns for?" She said "I can get the six sovereigns made into a necklace, and I can turn them into money whenever I want to." I think that is typical of what was going on and must still be going on in a large part of the country. That is where the gold imports are going

14746 That accounts for the very large imports of gold which have taken place lately?—I think so

14747 In connection with the 1s 4d ratio which you have described as the long-established ratio and which you regard as the right ratio were you referring to 1s 4d sterling or 1s 4d gold?—15 rupees to the sovereign 1s 4d gold. We put it in the other way we would have called it 15 rupees to the sovereign

14748 You have said that when the disturbances of the War had adjusted themselves the Indian exchange fell to approximately 1s 4d. Do you still mean there 1s 4d gold?—I take it from the figures which are given me in Appendix A to the Chamber of Commerce a statement which shows the average exchange rates bank selling telegraph transfers by months and so on and it shows me the rupee fell to 1s 3½d in February, 1921 which was very soon

after the cataclysm of February 1920 had spent itself

14749 In February 1921 according to the figures before me the value of the rupee in gold was 1s 1½d.—Then I think my figures must be sterling after the Government had reverted to a sterling basis

14750 They are sterling?—Yes

14751 So that your long established rate of 1s 4d gold was not achieved in 1921?—My long-established rate has nothing much to do with 1921. It has to do with 1898 to 1917. After that we enter on the period of disturbance

14752 I was dealing here with your remark that when the disturbances caused by the war adjusted themselves the Indian exchange fell approximately to 1s 4d. You are suggesting that that was the natural rate and that it reverted to it when left alone. What I want to point out is that the fall did not stop at 1s 4d gold. It went far below 1s 4d, and actually in June, 1921 the rate was 11d and a fraction.—I take your figures, but the fact is that you are looking at gold figures and I am apparently, though there is nothing to show it, looking at sterling figures

14753 My point is that when you say it approximately fell to 1s 4d that was only in sterling and not in gold.—In sterling

14754 So that if you are regarding 1s 4d gold as the proper ratio that argument rather falls to the ground.—You mean that I pitch 1s 4d as being too high and should take a lower figure?

14755 Your argument is as I understand it, that 1s 4d gold is the long established rate and the rate to which we ought to revert, and you say that when the War disturbances were over and the exchange was left to itself it reverted to that rate?—Yes

14756 I am bringing to your notice that it did not do so. It fell down to under 1s gold.—Well, I accept your correction. It was 1s gold 1s 4d sterling but remember at that time I think I am correct in saying the Government of India had tried to link the rupee to sterling and not to gold. The Government of India, as a temporary expedient when they found the impossibility of maintaining the rupee at 2s gold tried the expedient of maintaining it at 2s sterling and the result was quotations came to be given in sterling instead of gold

14757 It did not rise to 1s 4d gold again until October 1924.—Your figures must be correct. I only have sterling figures

14758 I just wanted to bring that to your notice. You remarked to Sir Purshottam Das Thakurdas that you would like to have seen the Government of India leave the exchange alone instead of offering to sell reverse Councils. Do you consider that the Government of India ought to have left it alone when it showed a tendency to rise last year?—No

14759 You consider that the Government of India should check the rise, but should not check the fall?—In that particular case, yes. As the Government of India were refusing through the legal fiction rupee to practice the natural corrective to a rising exchange, and that is to issue rupees in return for gold I think they were justified and I think their action was entirely beneficial in using their resources to prevent the rise of the rupee above 1s 6d gold, and I think that did the greatest service to the whole trade of India. My regret at the Government of India offering reverse Councils now is that it has deprived us of the opportunity of testing by practical experience whether the 1s 6d rate is the rate to which prices have adjusted themselves or whether it is an inflated rate due to these artificial conditions. It is not so much a matter of principle as of practice. I think the experience we should have gained by the Government leaving the rupee alone, now quite apart from any academic principles would have been of the greatest possible value to everybody who was trying to find what are the realities of the currency situation today. It seems to me that information has been withheld



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14789 Therefore if the ratio of 1s 6d—that is to say the purchasing power of the rupee at 1s 6d—has an effect upon internal prices, and if the short term contracts internally are overwhelmingly greater than the long term contract—is that not an argument in favour of stabilising your currency where it will cause the least injustice in the light of the existing contractual obligations?—That is one way of looking at it, but from my point of view not the desirable one. I say you must not adjust your currency temporarily to the prices, but you must base your currency on the definite principles laid down by authority, accepted by Government, and practised over a long period of years. Prices will adjust themselves to your currency. It may be rank heresy to say so, but I think of all the dangerous expedients which were put before the currency authorities the most dangerous was that they should attempt to regulate internal prices by manipulation of the currency. My information for what it is worth, is that this expedient was definitely and most emphatically rejected by the City of London, even though it was put forward under considerable authority.

14790 If I understood you correctly, you do appreciate that a change in the present ratio assuming internal prices have adjusted themselves to a 1s 6d ratio, would cause you grave disturbance?—It would cause very serious disturbance undoubtedly.

14791 So that the two things which have to be considered when deciding what ratio should be chosen is the question of justice or injustice to the debtor and creditor position and the disturbances that may be caused by a change in the level of prices?—Both those factors undoubtedly have to be weighed one against the other and both of those, if I may come back to my original thesis, have to be weighed against the established legal standard of money payments, which was accepted by Government on behalf of the people of India and for which according to many authorities they made considerable sacrifices this standard obtained for nearly 20 years and has only recently been disturbed. I quite agree with all you say. I have a good deal to do with labour and other factors and I view with some apprehension the effect on social conditions in the widest sense of the term, of the re-adjustment of prices and wages and values which must come from a reversion to a 1s 4d rupee. I cannot share the opinion of those who brush them aside or treat them lightly. They give grounds for considerable anxiety but my own belief is that that price is worth paying if through it we attain the stability we have in view.

14792 Then as to the future management of the currency we have had it given in evidence by a great many authorities that there are distinct advantages in entrusting a true central bank with the management of the currency first because of the great virtue of the control of currency and credit in the hands of one authority and secondly, the great virtue of amalgamating the currency and banking reserves of a country under the control of one authority. Do you agree with those views or do you regard them as negligible?—May I be quite certain that I understand you. You look to the existence of three separate authorities—the Government as Government dealing in Government finance; a Central Bank which should be a bankers' bank dealing with currency and not going into general business and thirdly the Imperial Bank of India carrying on its present duties on its present lines. Am I to understand that to be the position?

14793 No. Perhaps I might explain. Those who advocate a true Central Bank contemplate that that Central Bank should be the banker of the Government and the banker of the banks and that it should have the sole right of note issue governed by a charter which would closely define the reserves requirements. Such a bank would have complete control of currency and it would hold the currency and banking reserves. The combination of those factors is regarded by many authorities as of very great value in first of all directing the financial

policy of the country, and secondly avoiding those wide fluctuations in the price of credit which was such a hindrance in India to trade and commerce until comparatively recently.—Will you tell me where the Imperial Bank would come into this system, and then I can give you my answer.

14794 The Imperial Bank would not be regarded by these authorities as a true Central Bank. The Imperial Bank is really a Commercial Bank. The Imperial Bank would remain there to do the ordinary commercial business, being possibly freed from certain of the restrictions imposed upon it by its present charter, and so given greater freedom in its transactions. Then next to it there is to be set up a true Central Bank, as I said, as the holder of Government balances, the banker of the banks and the manager of the currency.—Everybody would agree to the principle of that as a most valuable element in the financial organisation of a modern State, and particularly of a great Federal State, as India is. On the other hand, if we come to apply the ideal to Indian conditions we shall find we have to pare it away a little owing to local circumstances. For instance, take the note issue. Unless this bank was going to manage the note issue as agent of the Government of India and no more, all the objections advanced against a transfer of the note issue from the Government of India to the Imperial Bank would be immensely reinforced by a new note from a new bank which nobody knew. The Government they know. The Imperial Bank they know. A new bank of issue nobody knows, nobody knows anything about it. That would be one point. The other point would be this. How in such circumstances would the Imperial Bank be able to discharge the greatest duty it has to perform at the present time and that is to nourish and to develop and drive home the internal credit of India? One of the greatest steps we have taken of recent years has been the obligation on the Imperial Bank of opening 100 new branches. One hundred new branches are a drop in the ocean. When the Imperial Bank have opened 5,000 new branches, then they may consider that they have made some substantial step towards the proper organisation of Indian credit. None of these branches can pay for years. How is the Imperial Bank to carry this baby, if it is to be deprived of the advantage of a free use of the Government balances? To my mind, a great point, which the present Finance Member in India has developed with much ability, is this. The transcendental work in India is the development of her internal credit resources, so as to cox these hoards out of their unproductive use into fructification in commerce and industry, and to encourage their investment. The Imperial Bank is the only Bank that can do that. The Indian indigenous banks have practically done nothing; they cling to the great towns. The Exchange Banks have done practically nothing. It has not been their business. Unless the Imperial Bank is not only left free to do this work but is provided with the resources with which to do this work, we shall set back the hands of the clock for a generation.

14795 May I ask. If there were a Central Bank in charge of the note issue which was in a position to extend credit facilities to the other Commercial Banks including the Imperial Bank by re-discounting would not that be a great asset to the country in fostering the development of banking?—It would be a great asset in fostering the development of banking in centres where the Bank is now established but that is nothing. That is a mere trifle. It is more thistledown filling on the rag facilities all over the country, not confining of fact each district ought to have a dozen branch Banks. I am not talking in the air because when the Bank of Bombay we found the district was much too large a unit if we are going to come down to the

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down to the established rate of 1s 4d. Is that your conclusion?—That is my conclusion.

14810 In other words, the ratio if 1s 6d is an artificial ratio brought on by five successive bumper harvests, starvation of imports, and the want of a working ratio?—I think so.

14811 In that case, the *de jure* standard of 2s. never having come into operation at all, the choice lies between the *de facto* ratio of 1s 6d and the legally established ratio of 1s 4d?—That is my view. I can see nothing to be said for any half way house between those two.

14812 You see no fall any house?—I see none.

14813 The choice lies between the *de facto* ratio and the legally established ratio?—That is my view. I think there is something to be said for the *de facto* ratio, and a great deal to be said for the old-established ratio but there is nothing to be said for a new ratio.

14814 Then you attach great anxiety to the continuance of a figure for the period of 10 and 20 years and also the continuance of the ratio at a particular figure?—Yes, I do feel very strongly if you take that away there is nothing left. There is absolutely no Polo Star in Indian currency whatsoever. If you make it 1s 6d to-day, there is no reason why you should not make it 1s 8d next year and 1s 4d the year after. I do not suppose there is any special magnetism attaching to 1s 4d to the dollar but still enormous sacrifices have been made to maintain it.

14815 What I understand is this. There is no special virtue in adopting any particular ratio at present but if a ratio has to be adopted, whether it be 1s 8d, or 1s 6d, or 1s 5d, or 1s 4d, or 1s 3d, the balance of advantage lies in going by that ratio which has been kept up for years together.—That is my view.

14816 That is the balance of advantage?—That is my view.

14817 There is no particular magic in any particular ratio which may have been fixed?—No, once our prices have adjusted themselves to it.

14818 With regard to your recommendation as to the gold standard I would like to ask you a couple of questions. You said you recommend a gold standard for the present, and gold currency ultimately?—Yes.

14819 What methods would you employ during the interregnum for the introduction and dissemination of some sort of gold currency?—That is rather more of an expert question than I feel competent to answer. I can only give you the rather crude ideas at the back of my mind. We have authority for saying that the Government is in a position to draw to give on demand in India gold in quantity we will say of 400 or if that is done we shall have made a substantial advance towards the gold standard as has at the present time been made in England. In our assumptions are correct there will be a steady inflow of gold into the paper currency reserve such as there was after 1873. As a matter of fact the only reason for the adoption of administrative variants from the 1893 policy was that there was too much gold. That is neither here nor there. If the Committee would lay down a figure as to the proportion of gold in the paper currency reserve which would justify the undertaking to give gold coins on demand when the gold in reserve reached that figure—or that proportion of the total circulation—then the Government should issue a gold coin on demand. That is what I have at the back of my mind but it is a much more technical question than I really feel qualified to answer.

14820 Would you not in the meantime give the Government an optional obligation to give the sovereign for rupees as was done before the War?—I would certainly give them that option.

14821 You would give them that option?—Yes. You went on the sovereign. The sovereign has been a benefactor and it has been a nightmare to India. The difficulties which have arisen out of wanting the

sovereign in India have broken everybody's heart. I think it is a question to consider whether the Indian coin should not be a gold mohur of the same weight and fineness as the sovereign so as to get rid of the interminable discussions with the Treasury (the Treasury are quite right from their point of view) over the establishment of a branch of the gold mint in Bombay. But that is a minor matter.

14822 In the scheme you recommend you would set it any limitation on the rupee circulation?—Well, I do not really know enough to answer that question. There is a weight of authority which says if you are going to build up a true gold currency you must contract or you must put a limit on your rupee currency. Whether that is sensible or not I do not know. Personally I should be very loath to see—at any rate for a great many years ahead—any artificial restriction on the additions demanded, if demanded, to the rupee currency.

14823 Would you also give India the benefit of the establishment of a Mint for free coinage of the sovereign or any gold coin that we might fix?—I should be and forthwith, even if it is run at a shed loss.

14824 That would be a great help in the disengagement of the gold hoards?—I think it would be bound to be an influence in bringing the gold hoards into circulation.

14825 This disengagement of gold will, in a great measure, affect the purchase of fresh gold from foreign countries?—It is bound to influence it very materially I think.

14826 Do not you think that the present large hoards of gold and bullion in the country, in a sense, are really a serious danger to India which would be obviated by the circulation of gold coinage?—I do not think that I would be prepared to say that it was a serious danger, though I would accept that view if it was put forward with any authority. What irks me is the loss of the Indian resources which we are so desperately anxious to expand.

14827 What effect has it on the value of gold?—I take it it must depress it. Do you mean the international market or in India?

14828 In India I am not referring to the international market.—That is a question really rather beyond me and I would prefer that you should put it to somebody who had made a closer study of it.

14829 (Sir Alexander Murray) You have answered so many questions on the ratio that I must apologise for asking you one or two more, but, incidentally, in your evidence you have given as one of the reasons for thinking that 1s 6d is not a suitable ratio the fact that during what you call the recent temporary lull in the export trade, or change in trade conditions in India the rate has dropped below 1s 6d. I think you said when you left Bombay on the 27th March it was round about 1s 6d. I wish to read to you a report that has come in by this mail from one of the leading firms of exchange brokers in Bombay giving reasons as they state them for the rate falling below 1s 6d. This report is dated the 31st March. This morning at noon an announcement in the paper that the Currency Commission's report is probably to be published at the end of April or early in May precipitated matters. The Bombay speculators and bullion dealers having already made up their minds that the Commission must recommend a 1s 4d rupee evidently decided that a month or so was a very short time in which to bus their requirements they being already heavily overbought started hammering the market soon after the opening. A speculative foreign bank quick to seize the opportunity and obviously anxious to bear the market when it was morally certain that no one was going to sell anything at any price, sent out the most fantastic buying orders which added to the confusion, and we closed with all rates quite nominal. These curious raids by foreign banks and particularly by a foreign bank, are not an unknown factor in our market. They are always

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and good sense I do not think I should, therefore, specifically limit its investments.

14,920 As regards its business, apart from investments, you would not restrict it entirely to its discounts?—Oh no.

14,921 You would allow it to lend money?—Yes.

14,922 So that to that extent it might be in competition with the banks?—I should certainly make no provision which would prevent the Central Bank, if it thought necessary, from competing with the other banks. It might be very necessary for it to do so.

14,923 Is it not one of the cardinal virtues, as put to us, of Central banks that they do not compete with commercial banks?—It is, but that does not mean that they do not protect the business community from the banks, if necessary.

14,924 I do not know what the practice is at home, but I take it that people often lodge with the Bank of England bills without actually re-discounting them. They do not sell the bills to them, they pledge them very often?—Yes often—everywhere.

14,925 The same thing would be done in India too?—Certainly. I think what I am trying to suggest is quite general, really. I am not trying to suggest anything special.

14,926 I appreciated very much the evidence you gave to the Chairman regarding the useful purpose which the Imperial Bank has been serving not only since its inception at the amalgamation, but by the old Presidency banks previous to that. I cannot personally visualise how the Imperial Bank is going to go on developing and doing all that you still wish it to do unless it gets some privileges of some description. The Imperial Bank has already increased its capital, and it has opened a hundred new branches in the past five years. You have not been opening branches. I have, and I know what a shortness of personnel means and I know that the wear and tear which the bank officials go through in a process of that description is very material. What I would like to get at is what you would really suggest from your experience, as a *quid pro quo* to the Imperial Bank of India for having increased its capital for having opened these hundred branches and for having increased its Dead Stock very materially, if it is going to drop back into a commercial bank still desirous of opening branches and developing the banking habit, and yet not having the Government balances and other privileges which have been accorded to it in the past. Can you suggest how we can arrive at a *six modus* as regards getting the use of Government balances from the Central Bank on certain terms?—I do not think I can suggest a *modus* because I do not know enough about it. It is very much a domestic question. My hope, certainly, would be that the commercial side of the Imperial Bank would be continued, that the policy of opening branches as fast as convenient and as generally as convenient, should be continued. Even if it is not so in the first few years I hope and believe that in the long run that policy will be extremely profitable to the bank, and extremely beneficial for India.

14,927 That is a very pious expression of opinion?—That is quite right. Although I have no knowledge as to the quarters from which the commercial bank would obtain the deposits with which to do this particular business. I cannot conceive that in a community of the size and wealth of India there would be any difficulty in getting them. That is all I can say.

14,928 I do believe we are working now in the right direction and that the opening of these branches in India has been the very best thing that could have been devised for a system of banking in India. It is because I feel strongly on that point and it is because I agree with all that you have said already in evidence on the point that I am a little dubious as to the future of the Imperial Bank or the commercial banks in India

without assistance similar to what that bank has been having in the past?—Assistance in the way of deposit you mean?

14,929 Yes?—Something of that kind may be necessary, I cannot say.

14,930 I wonder if Sir Charles Addis can help us from his wide experience as a practical banker?—(Sir Charles Addis) Your difficulty is that the new commercial bank will not be able to compete with other commercial banks because of its being over-capitalised?

14,931 That is one item I had in mind?—If its capital were reduced it would be able to compete.

14,932 Probably to a certain extent, but we must keep in view expansion as well as the mere earning of dividends. I am not looking at it from a dividend earning point of view alone. I am looking in view the wider issue to which the Governor has referred in his previous evidence, and which we all have in front of us, more than anything else. But the condition of expansion is that a bank should be able to operate on a profitable basis.

14,933 Quite so.—The new bank would be in the same position to do that as any other commercial bank in India providing its capital bore a proper relation to its liabilities.

14,934 If I may say so previous to the formation of the Imperial Bank, there was practically no expansion of banking in India by the then already established banks—with all due respect to the gentleman on my left. The exchange banks operated only in the big centres and will continue to operate only in the big centres. The Imperial Bank has acted as a pioneer and has gone all over India. They must earn a dividend or they will not be able to continue doing that. Where is the inducement to them to continue? Where are the facilities to be given to them to expand banking in India, which is what we all desire?—The condition, I take it from you, is that that expansion can only be achieved by means of a Government subsidy. Is that your proposition?

14,935 I do not like the word "subsidy"—That is the form which in substance it must take. Either banking, as carried on in India under such conditions that it can earn sufficient profit to enable it to extend or the economic conditions are such that banking cannot be extended without the help of a subsidy. Is there any alternative to that?

14,936 That is a point on which I desire the benefit of your experience as a banker?—I am not aware of any other. A bank must either pay its own way, or have its way paid for it if it is to extend. I can see no alternative.

14,937 Have you had any experience of banking in Japan?—No, not directly but I have been in close contact with Japan for many years.

14,938 Is it not the case that the Bank of Japan has an arrangement with the Yokohama Specie Bank whereby it has given certain duties to the Yokohama Specie Bank to perform and it gives to the Yokohama Specie Bank a large proportion of its Government funds at a very low rate of interest—something like 2 per cent. Are you aware of anything of that description?—That is an instance of what I mean by Government subsidy. There are many ways in which a bank can be assisted but they all come back to this that somebody has to find the money either in the form of low rates of interest free balances or payments for services rendered.

14,939 Is it a practical proposition in the case of the banks operating in India? Do you think that the banks operating in India would object to the Central Bank or the Government of India giving facilities in the shape of hard cash or other concessions to the Imperial Bank to enable her to continue the good work it has been doing in the way of extending banking in India?—I should not care if I were the Government whether the banks objected or not. If my considered policy were to

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develop banking in the interests of India I should look upon that as a function of Government and disregard any protest on that ground.

14,910. You would not listen either to the Exchange Banks or to the indigenous banks coming forward and saying "Privileges are being given to the Imperial Bank, which, after all, is only a commercial bank, which are not being given to us?"—I hope I should be reasonable in listening to criticisms. Sir Alexander, if they were well founded—as, for example, that the subsidy was being given without an adequate return or that the policy pursued was not in the general interest. Criticisms should be considered but I certainly would not, if I were the Government, allow myself to be dictated to by any bank. The national advantage to India as a whole must be the primary, and the privileges, rights and freedom of the banks only a secondary consideration for the Government.

14,911. Reverting for one moment to the question of the Central Bank, as regards the remuneration to the Central Bank I take it you had in mind something in the nature of what is being done in connection with the newly constituted Reichsbank in Germany. Do you think that the principles now at work in connection with the Bank of Germany are applicable, say, to a Central Bank in India?—They are, to some extent, applicable, but the constitution of such central bank must be determined by the conditions prevailing in the country of origin, and they vary very much. I think all one can do at this stage is to lay down on general lines the governing principles on which to proceed. I see no reason why, for example, the Government in setting up a central bank by curtailing its freedom of competition so as to enable it to act as the Bankers' Bank, should not drive as hard a bargain as they please with regard to terms. The Government remains responsible for the currency, and to entrust the bank with the sole right of issue and control does not in any way impinge their right to make such charges as may seem to the Government proper in the circumstances in order to prevent an undue share of profit accruing to the bank. The terms will be a matter of arrangement.

14,912. Speaking from your experience on the Board of the German Bank, do not you think what is being done there is a workable proposition?—I do not want to speak dogmatically about that. The German Bank has been in existence for less than two years and during that period it has been passing through an extraordinary period of chaos from which it is only gradually emerging. I would not like to give an opinion just at this point as to whether the statutes of the German bank may not require modification. I rather think they will. I should have thought so in your case also and that consideration seems to me to mitigate the fears natural to engaging in any new enterprise such as a central bank. The original conditions will have to be adjusted and modified in the light of experience until a satisfactory working basis is attained.

14,913. (Sir Alexander Murray) Just one more question in connection with the cover of the note issue. The Governor, in reply to Sir Menzies and in reply to the Chairman, indicated that a percentage should be in gold and a certain amount in gold exchange. Would you agree with a certain percentage being held in silver?

14,914. (Chairman) May I remind you of the previous answer to that question. "As to the silver in reserve, what is your view as to the desirability of there being a holding of silver in the reserve?"—In the abstract I think it is not a desirable security, but if by law or by custom silver is legal tender or in general use, I think it would be proper that a moderate amount should be held in the reserve."

14,915. (Sir Alexander Murray) It is arising out of that question that I was raising this point. I believe in the constitution of the Bank of England provision is made for one-fifth of the metallic reserve

to be held in silver?—(Mr. Montagu Norman) We are allowed to hold silver bullion.

14,916. Do not you think in the special conditions of India with its great silver tradition, it would be reasonable that a proportion of the metallic reserve might be held in silver?—It would appear to be reasonable.

14,917. Would you indicate a fifth, or some such figure?—No.

14,918. It is a matter for consideration?—Yes. (Sir Charles Addis) I think in considering the reserve you have first to take into account the necessity of protecting the exchanges. Clearly that reserve should be in gold, or in gold securities. You have also to take into account any internal drain, and that reserve might, to a considerable extent, be in silver. The amount ought to be determined by the volume of currency required to maintain the stability of the price level at any time. Whether, in order to ensure that, the silver in the reserve should be one fifth or one fourth I do not know.

14,919. (Chairman) Does the Bank of England, as a matter of fact, hold any silver against its notes?—(Mr. Montagu Norman) No.

14,920. (Sir Alexander Murray) What about the £7,000,000? If the amalgamation which is spoken of were to take place what would happen to that £7,000,000?—That question remains for future consideration.

14,921. But it does exist even in a gold standard country like England?—Yes.

14,922. They do now hold £7,000,000 silver in reserve as cover?—£7,000,000 is held against the currency note issue.

14,923. In a gold standard country?—As Sir Charles says, it is not reckoned in the gold cover?—(Sir Charles Addis) It is included in the fiduciary portion.

14,924. It can be reckoned in the Bank of England reserve if amalgamation takes place?—(Sir Charles Addis) Legally it cannot, practically it is not so reckoned, and is not likely to be. (Mr. Montagu Norman) May I say one word, Sir Alexander? There are two things which have occurred to me in which I thought perhaps you had misunderstood me a little. The first is in whatever I have said last time or to-day on this subject I am only trying to state principles and I am quite convinced that the principles of banking are dynamic and not static, and will have to be developed and frequently modified. That is the first thing I wish to say because I thought perhaps on that you had misunderstood me. The second thing is this. I believe it to be enormously to the advantage of all the banks in India that the habit of banking should be encouraged by the spread of branches—the inducements to save and to bank should be pushed throughout India by the Imperial Bank if there is no one else to do it. It is not a competitive thing but it is for the advantage of all in my opinion.

14,925. (Sir Alexander Murray) Thank you very much.

14,926. (Mr. Prertton) In defining the function of the central bank you said *inter alia* it should be the holder of all Government balances the holder of all reserves and then you emphasised the all reserves of other banks and branches of banks in the country. I take it that you mean their cash reserves?—Necessarily not merely that portion of its cash reserves which a bank may elect to hold in India.

14,927. Take a British bank with a head office in London and a branch in Bombay. What do you intend the central bank to hold?—I intend it to hold a reserve commensurate with the liabilities of the branches which the bank has in India.

14,928. Then really we have to modify the "all" to the extent of the percentage commensurate with its liability in India—and not all?—Will you give me the paragraph?

14,929. It is No. 14,517?—I do not see that that is wrong. It seems to me to be right.

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Imperial Bank. If coupled with this you bear in mind that these branches are not paying for the first few years, I hope you Sir Charles as the head of an important bank will agree that no bank would undertake this operation unless you offered some inducement. A bank would not undertake it merely in the interests of the country—at least, no commercial bank would undertake it. Banks are not philanthropic institutions of course, but it is common experience that it takes some years for a new branch to pay its way. There may be a long period of sterile activity before any direct return is received. The indirect process is that the money as it comes in flows where it is required generally to the Head Office and is there put to profitable use. A branch may be receiving deposits and showing an apparent loss it does not follow that the bank as a whole is losing.

14999 Just as a bank is not a philanthropic institution so is a Government not a philanthropic institution including the Government of India, but if a Government of India has the patience to wait until results come in course of time, from the various branches and from the activities of the Imperial Bank of India. The strongest objection taken is that the Imperial Bank is a commercial bank, and therefore we must have a new reserve bank for note issue. A new reserve bank means taking away all the Government balances from the Imperial Bank. There is therefore, nothing else with which the Imperial Bank can carry on its present activities without seriously imperiling the interests of its shareholders. In those circumstances is there any chance of the Imperial Bank continuing their useful activity regarding new branches? Does not this materially affect the question of the ideal which Mr. Governor has put before us so as to suit local conditions in India?—You appear to me to be putting forward as hypotheses which may or may not be correct.

15000 Let us take it on the basis of hypothesis—I will proceed to discuss it. You assume that after the separation of the banking functions conditions will be static and forecast the future accordingly. But rarely the future of the commercial bank would depend in the first place upon the management, upon the energy and skill of those who conduct its operations, and the capacity to secure in competition with other institutions, the business which at present they do not possess. Whether it is carried on at a profit or at a loss will depend upon the wisdom with which it is guided. You would admit that?

15001 Of course.—The bank would be or ought to be the author of its own fortunes in developing a profitable trade. It is of the essence of banking to look ahead to be content to work here and there as a loss so long as the tendency of the business is to advance to a profit-earning basis.

15002 If the Imperial Bank said at the present stage, where it has got 164 branches that it would stop and not do any more expansion saving to themselves. "We will now wait for 10 years until all these branches begin to pay and bring in profits, making up for the losses which have been entailed," one could understand it. But what the Indian public expects from the Imperial Bank as one witness said is not 100 branches but 1,000 branches, or 10,000 branches—and he named a higher figure still. Is not this a view of the Imperial Bank very important to the country or would you be indifferent to their stopping at 164 branches and consolidating their position?—No. I think branch development is of great importance.

15003 You would like them to have 10,000 branches?—I would.

15004 How is that going to be done? Before the 164 branches become paying there would be 2,000 more to be opened and before the 2,000 have become paying there would be another 8,000 to be opened. Is there any alternative to what you call the sub-

sidy having to be continued?—I have such confidence in the resources of India and in the development of its banking system that I have no doubt as to the result. It is only a question of time. The degree of importance attached to the element of time would be the measure of Government assistance.—(Mr. Montagu Norman.) If any.

15005 The extent to which this should be pushed forward, and the speed with which it should be pushed forward is a matter not admitting of any difference of opinion. You yourself said a few minutes back you would like the number of branches to be multiplied five times.—(Sir Charles Addis.) Yes.

15006 Is the Imperial Bank going to have any better experience with regard to its new branches than it has had up to now?—I cannot tell.

15007 Therefore supposing the Imperial Bank said "We must only pay dividends at the present figure," how is it even going to do that without Government assistance?—I have not suggested that it could.

15008 No. Then I come back to this point, that some sort of subsidy is necessary for what is called the commercial aspect of the Imperial Bank if that important activity of the bank is not going to be stopped. Would you agree with that?—I say it is a question of degree. It would depend upon a variety of factors such as the skill and activity of the management, or the period of time allowed by the Government for the accomplishment of the task. Subject to these considerations and measured by them, I should say myself (though I do not know that the Governor would agree with me) that some degree of Government assistance might be justified.

15009 We will credit the management with the same degree of efficiency and skill as they have exhibited until now. We will not go into that any further. With that degree of efficiency you agree, if this activity is to be continued, some sort of what you call "subsidy" would be necessary to maintain this part of their activity?—Are you not again assuming that conditions are to remain the same? As I understood the proposal of Mr. Governor, it is that, the separation having been made, the freedom of commercial competition will pass to the Commercial Bank, which will thus be given a capacity of development which it does not possess at present.

15010 That is as far as existing banks are concerned. I did not understand Mr. Governor to be expecting that new commercial banks would be starting in India with the withdrawal of Government assistance from the Imperial Bank. I do not know if I understood him correctly.—No. My point is that the conspicuous portion the Commercial Bank, when established by itself with full freedom of movement and capacity for action, would no longer be a part of the present Imperial Bank.

15011 You mean that the Imperial Bank would then be able to make larger profits in its commercial activities in the more established centres like Bombay, Calcutta, Madras, Karachi and Rangoon, than it does at present?—I mean that generally the power of the Commercial Bank to expand its business and to compete with other institutions would be increased.

15012 To that extent you expect that the Imperial Bank will show better results in that direction?—I do.

15013. Although the Imperial Bank would have formidable competitors in banking institutions already established, you think that the Imperial Bank would gain from competition in those places?—I think fair competition is the best stimulus a bank can have. I regard it as an important factor in its progress.

15014 I have no doubt that competition is most desirable in the interests of the community to be served by the banking institutions but whether that competition would mean larger profits is the question which I was referring to. Would it lead to larger profits for the Imperial Bank?—I have had a good

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many years experience but I have never found that far competition can damage the interests of the community or of the bank.

15015 It fits not be affected even by far competition. I thought competition generally reduced profits—I believe that to be a profound mistake. Profits in the aggregate may be enormously increased by the relative advantage that competition gives to ability. (Mr. Montagu Norman.) So do I.

15016 I would like to wind up this part of the matter with this remark. I wonder if you would agree with it or not. Is the general question of currency and finance for India the question of the development of banking facilities in India plays a very important part and the interests of the Imperial Bank in that direction can be looked upon as very satisfactory up till now and should be encouraged?—(Sir Charles Malet.) I regard the development of banking in India as of great importance from the point of view of the currency. A counterpoise to hoarding an incentive to economy in the use of currency is a stimulus to private saving and investment in interest bearing securities instead of gold. It would mitigate the menace to the currency of the silver rupee. It was the fear of a rise in the price of silver which was partly responsible for the rupee being fixed on the Statute Book at an exchange of 16. In all those directions the development of the banking system should be a regular part of the policy of the Government of India. Whether the Imperial Bank carries that out satisfactorily I am not in a position to offer an opinion.

15017 I was only referring to the activities of the Imperial Bank with regard to opening branches which is a thing they have done because by Statute they were expected to do so. It is not that I am asking you to give any certificate to the Imperial Bank. I am only stating the facts and ask you whether they have not acted up to their part and whether they have not done a useful service in that direction which both you and I approve of?—Your question has really a qualitative as well as a quantitative aspect.

15018 Then let us deal with them separately?—As regards the quantitative aspect I am sure that it is a good thing to open branches so far they have done well.

15019 That is quite clear?—Whether the branches have been opened in the most advantageous quarters or whether wisdom has been shown in selecting in order of importance and urgency the most profitable economic centres to be served is a point on which I am not competent to give an opinion.

15020 You are not in a position to discuss that?—No.

15021 If there was nothing strong which could be urged against it you would agree with me in the qualitative part also?—My answer would be qualified by my information as to whether the action taken was wise or unwise.

15022 Supposing I put it in this way. In opening branches generally they have done the right thing and it has been of service in several ways namely preventing people from hoarding and putting before them the inducement to invest?—I do not differ but even here I must qualify my answer by remarking that branches may have been opened in places where it may be found impracticable to establish a bank even eventually on a paying basis with that exception I agree.

15023 There may be one or two cases like that but we are discussing the question in general?—Then in general my answer is yes.

15024 I should like to put to you Mr. Governor one question. It has been stated that the interests of the proprietors of the Imperial Bank have to be safeguarded and you said in reply that you did not see that any harm was done by the scheme that I mentioned to the proprietors' interests. May I take it your opinion is that in this point of view

question the proprietary interests of the Imperial Bank shareholders should be safeguarded so far as they may be compatible with the broader question of the best interests of the country and the State? (Mr. Montagu Norman.) I think in the scheme which I tried to explain the shareholders' interests are not jeoparded. What I meant was that what they lose on the one side they gain on the other. That is the specific reason why I suggested that whatever fresh capital might be necessary should be offered to those who hold the existing capital and thereby so far as I can see if they lose anything on the existing capital they will gain it on the new.

15025 If it was contended that a few shareholders may not be able to take up more than the existing capital the particular interests should not affect the decision so far as the main interests of the country and the State are concerned—I should think generally that is true.

15026 (Sir Reginald Malet.) Among the categories that you would exclude from the directorate of the Central Bank you mention politicians?—Yes.

15027 Could you give a very brief definition of that term?—I think that definition should be adapted to local circumstances. I am sure it must be an expression which is well known in India.

15028 The term is very widely used in India. There are a number of political activities there quite outside the Government and a number of political associations. I wonder whether you intended to debar members of those associations from the management of the bank?—I do not know enough about the conditions Sir Reginald to answer your question so detail. I am afraid but I do intend to exclude those people whose primary interest in life is said to be politics.

15029 You suggested that 40 per cent of the reserve assets should be held in gold. Would you lay down the maximum percentage in the bank's charter?—No.

15030 No percentage at all?—No.

15031 You would simply leave that to the discretion of the bank?—No. I think what I said was that 40 per cent of gold or gold securities should be the minimum.

15032 But you would lay down no minimum of gold?—No. I do not think so.

15033 You think it would be safe to leave that entirely to the discretion of the bank?—Certainly I do.

15034 Would it be safe to let the gold holdings rest entirely in India? I should prefer to leave that to the directors. The question would be subject to any legal provisions.

15035 They would be free to hold it either in India or in London?—They would be free to hold it where they liked. I think on all matters such as that the Board should be given the utmost freedom.

15036 Supposing they adopt the policy of requiring a 40 per cent reserve of gold do you think there would be any difficulty in the getting of the gold? The note issue is approximately £200 million 40 per cent of that would mean £80 million. With the rupee at 1s 6d that would be £80 million 000 and also I may point out that the note issue has increased very rapidly. It has tripled itself in the last 10 years and it is quite possible that it will double itself in the next 10 years. That would mean £120 million of gold would be required in the next 10 years? When I spoke of 40 per cent of gold I had that in mind as the ultimate figure. I remember rightly and I am still regarding it as an ultimate figure.

15037 Which you would contemplate being acquired gradually? Very gradually at all but at the discretion of the board.

15038 You have recommended that the Government should retain the responsibility for taking over or redemptions of rupees?—In a later

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(Continued)

15,039 Yes. Would you recommend that the Government should retain possession of the present gold reserve of £10,000,000 which was built up in order to provide against the depreciation of the silver rupee?—I am not familiar with the position in detail but in general I should not so recommend. I think that should go to the bank.

15,040 Would it not be necessary for the Government to hold the reserve against these redundant rupees? The Government, under your scheme, has to take them if required by the bank, and provide gold or gold securities in their place. The Government would have to maintain a reserve, would it not, against such commitments?—I do not think that any existing reserves should be withheld from the Central Bank for that purpose. The Government has received full value for any rupees which it would now have to take over from the bank and would or might receive something for the silver which it would sell. It is only a question of detail, at any rate.

15,041 Then you contemplate that the Government should sell the surplus silver and not hold it?—No, I do not contemplate one or the other, but I presume there would be a limit to the amount which they would wish to hold.

15,042 At present the holding of silver is the currency reserve exceeds 80 crores of rupees. It is between 80 and 90 crores?—Yes.

15,043 I take it you would consider that excessive for the bank to take over?—Very.

15,044 So that the Government would either have to hold it or sell the silver?—Yes.

15,045 I understand from your criticism of the original scheme that you did not recommend the Government to sell a large quantity of silver?—My criticism of the original scheme was that the gold proposals were linked with silver proposals of such extent that sales of silver would necessarily break the silver market.

15,046 And it would do so under the scheme which you have put forward to-day?—I have not dealt with any silver—at least, not directly.

15,047 You suggest that the bank should only hold a small amount of silver, and you suggested that the Government should be responsible for drawing off the surplus supplies of silver. There is at present under this proposition a considerable silver supply which the Government would have to hold in reserve or else sell it and thereby upset the silver market?—I consider that the bank should hold only a very moderate reserve in silver. Silver is taken coinage, and that is the affair of the Government. If the silver coinage in the hands of the Bank is redundant, the Government should take it over. If it is short, they should supply it. They do so here and in practically every country. That is either by law or custom. If it is necessary for the Government to do so in order to discharge its obligation, it will continue the present policy of holding such reserves in silver as you have named.

15,048 But the policy which the Government has followed in the past has been to build up a reserve fund in gold from the profits of the silver coinage, and to earmark that fund against the possible redundancy of silver, and against having to withdraw rupees. The question I asked was whether you consider that the Government should continue that policy and maintain a reserve against the redundancy of the rupee?—I do not really feel I know enough about that but generally speaking, I think the responsibility for the silver coinage, the rupee, must continue to be that of the Government only and that, so far as concerns maintaining a reserve against that, I think it is a question for them. I do not know.

15,049 Do you not think it would be prudent for the Government to maintain a reserve against a large and uncertain liability of that kind?—I do not know. I have never had to consider the matter from that angle.

15,050 (Sir Reginald Munt) Then I will not trouble you further with it.

15,051 (Sir Henry Strakosch) Supposing that a new central bank were set up—an entirely new and separate institution—could you give us your views as to what the capital of that bank should be?—Well, I had not intended to express any view on this, but it occurred to me while Sir Alexander Murray was speaking that the figure which he named, viz., 12 per cent of the liabilities, seemed to me to be about right.

15,052 (Sir Alexander Murray) The proprietors' capital and reserve at the present moment represent about 12 per cent of the total assets or liabilities of the bank as shown in the balance sheet.

15,053 (Sir Henry Strakosch) It is very difficult to assess what the future deposits of the new bank will be. The present capital of the Imperial Bank, I understand, is about 11 crores.

15,054 (Sir Alexander Murray) The subscribed capital of the Imperial Bank at the present time is 11 crores, and the paid up capital is 5 crores 62 lakhs and 50,000 rupees. Then there is a reserve belonging to the proprietors of 4 crores 82 lakhs and 50,000 rupees.

15,055 (Sir Henry Strakosch) Would you regard 10 crores paid up capital as sufficient for that bank?—Well, I do not think I can answer the question in that way. I think I could only suggest that it should be an amount bearing some relation to the liabilities which the bank was expected to have in the near future.

15,056 You would say that something in the neighbourhood of 12 per cent of the total prospective liabilities in the immediate future would be adequate?—I should take some such figure as that.

15,057 Would you recommend that its shares should be fully paid up or partly paid up?—Personally I think in the case of a central bank that would better be fully paid up.

15,058 It was suggested when you were examined earlier that it would not be a proper thing to offer to the shareholders of the present Imperial Bank the right to subscribe for the shares of a rival bank, the new central bank being called the rival bank. Would you regard this new central bank as really a rival of the Imperial Bank?—Not at all. In fact I should hope that the relations between these two banks would be extremely close and cordial, just as I hope that similar relations would be developed between the new Imperial Bank and all the other banks in India.

15,059 Is it not a fact that all the modern charters or statutes of central banks closely define the operations of those central banks, and that, taking the limitations that are put upon those central banks, they cannot really compete with an ordinary commercial bank?—I may perhaps quote one or two of those limitations which are usually put on central banks?—By law, do you mean?

15,060 By law or by custom. In those which have been more recently established those principles have been laid down in the charter, and therefore are statutory. One is that they are debarred from making unsecured loans or advances, from drawing or accepting bills payable otherwise than on demand, and from accepting money on deposit for a fixed term, or allowing interest on credit balances on current account?—Yes.

15,061 Do not those conditions alone throw the Central Bank entirely out of the field of competition with the commercial banks?—I think they do.

15,062 Therefore, a true Central Bank established on principles that are now recognised as sound, could not in any circumstances be regarded as a rival to the Imperial Bank, especially if that bank is freed from present restrictions?—It could not.

15,063 In your experience, Mr. Governor, regarding the provision of capital for central banks in the more recent past, is it not a fact that in every instance the capital was quickly found, and that the

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shares of those central banks very quickly reached a high premium above their par value?—The capital was either immediately or quickly found and in every case with which I am familiar the premium was established.

15064 Therefore it is really conferring a privilege, an advantage on the proprietors of the Imperial Bank if they are given the right to subscribe for these shares at par?—On the proprietors it is essentially.

15065 Is it not a fact that there is hardly a modern State whose economic development is progressive which has not established a central banking system?—As far as I am aware there is not one, and I think I may go farther and say all those countries which have progressed most quickly, and as far as one can judge most permanently with reconstruction in the last six or eight years are those where you have had a strong and independent Central Bank.

15066 Would you regard it as more important to establish a system on those lines rather than concentrate on the idea of developing branch business? In other words, is it not more important that a country's credit organisation should be placed on what practice has shown to be sound lines rather than concentrate upon expanding the commercial banking business by way of establishing branches?—I am in favour of expansion for the commercial bank as part of its general policy and of the establishment of credit organisations on the lines that you have mentioned through the Central Bank.

15067 May I put it in a different way?—Perhaps I did not understand you.

15068 Would it not foster banking in a country which is not properly endowed with a banking organisation if the system established were a sound one, and is not the central banking system one which could foster more than anything else the spread of banking in that country?—A sound Central Bank will, I believe, do a great deal to increase banking through the country, certainly.

15069 So that if India were to establish a true Central Bank it would lay the true foundations for the proper development of banking in India?—I think so. I do not think it can ever be developed without the establishment of a true Central Bank on proper lines.

15070 (Chairman) Is there anything in the long journey we have taken to which you would like to return by way of amplification, before we close your examination?—No.

15071 I am sure it will be the desire of the Commission that I should express to you, Mr. Governor, and to you, Sir Charles Adams, their very warm appreciation of the generosity with which you have put your time at their disposal as you have been most helpful to the Commission?—Thank you. If we could serve you again, I am sure it would give us the greatest pleasure to come here on almost any day.

15072 (Chairman) That is indeed most kind of you.

(The witnesses withdrew.)

## FORTY-SEVENTH DAY.

Friday, 30th April, 1926.

### PRESENT

The Right Hon. EDWARD HILTON LONG, P.C., D.S.O., D.S.C. M.P. (Chairman)

Sir RAJENDRANATH MOOKERJEE, K.C.I.E., K.C.V.O.

Sir NORCOT HASTINGS YEELES WARREN, K.C.I.E.

Sir REGINALD MANT, K.C.I.E., C.S.I.

Sir MANICKJI BYRAMJI DADABHAY, K.C.I.E.

Sir HENRY STRAKOSCH, K.B.E.

Sir ALEXANDER ROBERTSON MURRAY, O.B.E.

Sir PUSHPOTAMDAS THAKURDAS, C.I.E., M.B.E., M.L.A.

Professor JANAHAR COOVERJEE COOTNER

Mr. WILLIAM EDWARD PARSONS

Mr. G. H. BAXTER } (Secretaries)  
Mr. A. ATANGAR.

Mr. GEORGE E. ROBERTS, called and examined

15073 (Chairman) I should like in the first place to express our high appreciation that so distinguished a citizen of the United States as yourself should have come to assist us in our deliberations here in a manner which will be greatly to our advantage. We also wish to thank you in particular for the labour which it must have cost you to prepare the very interesting memorandum\* which we have received from you. It would be of interest to put on our records the fact that you have been Director of the Mint in the United States—if that is the proper designation?—That is the correct designation.

15074 A position which, of course, brought you very much into contact with the problems of currency all over the world, and amongst others, no doubt, with the problem of the rupee?—I was quite familiar with it during those years. I have not kept up with

it quite so well since I have been out, which is some 10 years.

15075 At present you are Vice President of a great bank, namely, the National City Bank of New York?—I am.

15076 Your memorandum is so full and, if I may say so, so clearly expressed that there is very little indeed, as far as I am concerned, that I need ask you in further elucidation of it but perhaps I may ask you one or two questions in order to ascertain where you lay the weight of emphasis in the considerations which you advance. In your first paragraph you say "I need not dwell upon the benefits to be gained by all countries from the restoration of a common standard of value. The experiences of the last 12 years have afforded ample demonstration of the evils resulting from unstable currencies and exchanges." The common standard of value to which

\* Appendix B.



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you refer to, as I understand, the gold standard?—Yes, I refer to the gold standard.

15,077 Then you take up the question of the world's gold markets, and at the end of your second paragraph you say that you are inclined to the opinion that the prospective supply of new gold is large enough to permit the general re-establishment of the gold standard without serious disturbance to prices, provided all possible economies in its use are effected, and the new stocks wanted are acquired without too much disturbance of existing stocks already in use as the basis of credit. What is the nature of the economies which you have in mind in your reference to all 'possible economies'?—Chief among them is that of retaining gold in bank reserves instead of putting it freely into circulation—instead of returning it to circulation in the same degree in which it was used before the war. Then I think that economies may be accomplished in the use of gold in bank reserves and by closer co-operation between the central banks of the world in the management of trade balances, so that there need not be so much shipping of gold from country to country. In the long run trade must come into balance, and I think that, by co-operation between the banks of the several countries, the shipments of gold may be reduced considerably from what they have been in the past, and that therefore they can work upon smaller reserves than have been thought necessary in the past.

15,078 This converse no doubt is also true, Mr Roberts, in your opinion—that if all possible economies are not effected, then the prospective supply of new gold is not large enough to avoid serious disturbance to prices?—I think there is room for doubt about it, in fact there is doubt about it to the minds of some competent people—economists—whose opinions are entitled to respect. As I have stated below, the gold reserves to-day are considerably larger than they were before the war, and the general price level is adjusted to an expansion of credit. It is going to be necessary in the future that the additions to the reserves shall be larger from year to year than they have been in the past. That is where the question comes in as to whether the annual production is going to be sufficient to replenish and add to the reserves fast enough to keep pace with the growing volume of business and to maintain the existing price level.

15,079 You make special reference in the succeeding passage to the influence of possible claims for gold for circulation, and you say, "If there should be an expansion of business over the world and at the same time a general replacement of gold coin into circulation, the gold reserves probably would not be sufficient to supply the amount of credit necessary to maintain the present price level. In my opinion it would be a mistake at this time to afford facilities anywhere for gold to be absorbed into circulation." A mistake from whose point of view—from the point of view of the people who want the gold in circulation, or from the point of view of the people who are going to supply the gold for circulation?—I am looking at it from the general world standpoint with regard to the recovery of the world in normal conditions, the general recovery of trade and prosperity the world over, which I think is what we must endeavour to promote in the interests of all countries.

15,080 That is it would be a mistake in the general interests of all countries?—Yes.

15,081 I understand that that was really your meaning but I wanted to make it clear. Then you emphasise the need for gold in certain other parts of the world—in Central and Eastern Europe—and you say that gold is needed in all of those countries to permit credit expansion, to lower interest charges, and to stimulate a revival of trade and industry. Could you amplify that by telling us what in your opinion would be the effect of making it more difficult for those countries to obtain gold?—It would retard their recovery. All through Central and Eastern

Europe interest rates are very high as judged by all the standards of the past—ten and 12 per cent, and even higher than that, are common rates of interest. Such rates signify a greater scarcity of liquid capital, and a very pressing demand for it. Undoubtedly business is being retarded and industry is being held in check by such interest rates and by the inability to obtain capital. It is evident that in a situation like that only the very best borrowers are going to be accommodated at all. There are great numbers of would-be borrowers who are practically unable to obtain accommodation, which means a restriction upon business and upon industry which is retarding development and lowering the consumption of those peoples. It is reducing the consumption of goods which all the world is wanting to sell, and it illustrates the fundamental difficulty, as I see it, in the world to-day. All countries are complaining of inability to sell their products at remunerative prices. The fundamental reason is that the consumption of the world is below normal.

15,082 Then we pick up the interesting figure, in paragraph 10, that the United States lost about 131 million dollars during the year 1925. Then we pass on to a most illuminating passage in paragraph 17, where you say "It is a mistake to suppose that the United States has any considerable excess of gold reserves at this time. At the present price level, and with the present volume of credit outstanding, the reserves of the United States are no greater than the financial authorities of the country deem reasonable, conservative and desirable." Then you point out that in July, 1914, the gold holdings of the Treasury and banks equalled about 7 per cent of the aggregate amount of credit currency in circulation, together with the net individual deposits of the banks, and you add that at this time they do not exceed 8 per cent. Now, the state of affairs which you emphasise there is so much in contradiction of what, in view of your statement, I may call the popular rumour or superstition as regards the gold holding in the United States, that I wonder if you could amplify it a little and explain to us how it is that it has come to be supposed that there is a great excess of unneeded gold in the United States if, as it appears from your evidence, that is not at all the case?—It is true that the United States has received very large quantities of gold since the outbreak of the war—approximately two and a-half billion dollars or, say, 500 millions sterling; but the outstanding credits and liabilities of the banks have increased to corresponding degree. The figures given include the Government reserves against its outstanding currency, and the reserves of the Federal reserve banks against their own liabilities and it should be understood that the last-named reserves also serve as the reserves of what are called the member banks—the individual banks of the country which, in fact, in the general banking business of the country. If you take the amount of gold in the reserve banks alone as compared with the outstanding Notes of the reserve banks and the deposits of the individual banks (all of whom look to the reserve banks for their cash reserves) you will have a percentage considerably less than that 8 per cent—I think less than 6 per cent. I have stated here the reason why I think that these are moderate reserves for a country like the United States, spread over as much territory as it is, and with the character of the banking system which we have. We have great numbers of individual banking institutions having just one office and that only in the community in which the bank is located. They are not as a rule run by trained bankers. They are run generally by men who are usually good judges of credit risks in their communities, but they are not trained in the science of banking. Prior to the establishment of the Federal reserve system there was a very great

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and at this time I think the gold will serve a better purpose in the bank reserves than it will in being passed round from hand to hand or kept in private pockets.

15,097. Then there is a weighty sentence in your memorandum where you say that you are impressed with the fact that in the present situation the problem of restoring the world to the gold basis is dependent for success largely upon India, and you add, "I am sure that success will serve the interests of India as well as those of the other countries." So I take it to be your conclusion that this question of the supply of gold for India may have a decisive effect upon the future of the return to the general gold basis in Europe and in the civilized world?—I think it is the most important factor in the situation today. In looking forward to the task of providing European countries with the gold they need in order to stabilize their currencies the chief danger which I apprehend is the large demand from India. The demands from India are large any way. There are bound to be very considerable, I take it whatever the currency system is there because India has always taken a great deal. I should think it most unfortunate if India at this time were to increase her takings of gold.

15,098. It is your opinion that it is in the interests of India to co-ordinate her requirements for gold with the general position as regards gold in the rest of the world, and that it is in the interests of India for her not to disregard the general situation as regards the supply of gold? The words I am stressing and emphasizing in my question are "in the interests of India"?—I thoroughly believe that the business of the world is so closely knit together nowadays that business depression anywhere, or any condition which affects the prosperity of large bodies of people anywhere in the world and which reduces their purchasing power will be felt in every corner. India has large exports of commodities which enter into the industries of other countries and which inevitably are affected in price by the condition of the industries of other countries—whether they are able to run full time or only half time. All that at last comes back on to the purchasing power of all the peoples. I think we must all try to work for the support of this general world organization. That is the thought we have in the United States and which we are trying to bring our own people to see. At any rate, the institution with which I am connected holds that view, and we endeavor to spread that doctrine among our own people, namely, that we must co-ordinate our national policies to the policies which, in the general way, are necessary to the prosperity of the world and also that we ourselves, in the long run, will prosper by so doing.

15,099. Then we come to that part of your memorandum which deals with silver. If you will pardon my saying so, I find that the argument here is so closely knit and so full of matter that it is almost impossible to select any single point which requires any further elucidation. Might I ask you therefore if you will be so good, just to tell us a little more with regard to what I may call the reaction which a proposal for a sale of silver by India (such as that appearing in the memorandum which you have put into your hands) would have upon the United States. You say for instance that this will be regarded in the United States, and also in other producing countries, as a very disturbing proposal and in a subsequent passage you say, "It goes without saying that the silver producing industry will hear of this proposal with dismay." Further, you point out the reaction of the proposal upon the producers of other countries, and so on. Can you explain that a little further by telling us first of all whether, in your opinion, those apprehensions which will be felt and that dismay to which you refer would be justified from the point of view of the silver and base metal producers?—It is a fact of record that for a long time India has been the chief final market for silver. It takes

approximately one-third of the world's production. It could not be other than disturbing to silver producers to learn that India was contemplating a change in her monetary system under which she would offer for sale as bullion an amount of silver now estimated at 687,000,000 ounces. That is equal to nearly three years' world production. Such action certainly would be demoralizing to the market, at least, while the sales continued. I am myself unable to see where any new or increased consumption could be found to take the surplus which would exist. I doubt that any moderate decline in price would increase consumption outside of India to that extent. Therefore, I am strongly inclined to the opinion that the calculation upon which the plan seems to be based, to wit, that the silver could be made at not less than 24 pence per ounce, would be found to be erroneous. I believe that under the circumstances the price would go lower—quite possibly much lower. I have explained in my preliminary statement that silver has been a subject of political agitation in the United States, and that public sentiment is sensitive upon it. I have illustrated the way sentiment reacts to it by the action of the Congress in the case of the Pittman Act. We had a great store of silver dollars in the Treasury which were practically of no use. They were represented in circulation by silver certificates, but the certificates were not regarded as dependent alone on their silver backing; they were a charge on the gold reserves in fact. Of course, the silver depreciated in value. There did not seem to be any way to realize whatever value it did have until along came this enormous demand for silver for settlements with India in 1917-18, and a proposal was made to allow this silver to be sold for that purpose. At first sight it looked like a windfall for the United States Treasury, as a means by which it might realize upon all this unavailable silver at its original cost. A Bill was introduced to permit the sale, but it did not get very far before it developed that there was no prospect of its passing without an amendment to the effect that the Government should repurchase all of this silver if it ever fell as low as one dollar an ounce and recoup and restore the stock in the Treasury. The silver producing industry was active in that movement. It gave leadership and voice to it, but after all, I do not think that Congress would have been moved by the plea of the silver producers alone. The old sentiment which had always opposed the movement of the United States away from silver weighed against the Bill and helped to carry the amendment to which I have referred, so that the Government has since repurchased all of the silver that was sold at that time. I refer to that simply as illustrating the sentiment which has been behind the silver producer.

15,100. Is that at all a regional sentiment?—It is, in a degree. Silver is produced throughout all our mountain States—our Western States along the Rocky Mountain Chain. It affects many States, and under our system of Government as you doubtless know the States are all upon an equality in their representation in the United States Senate. For instance the State of Nevada which has less than 100,000 inhabitants, and which is a silver producing State, has the same vote in the United States Senate as has the State of New York. Thus the silver producing interests are especially strong by reason of their distribution over a considerable number of States with small populations. The most important feature of this opposition, however, arises from the fact that silver production is identified with nearly all our metal mining operations with the production of silver and copper, and anything which strikes a blow at the silver producing interests is regarded with equal apprehension by the lead, copper and zinc interests. So that altogether it involves a large amount of capital, the prosperity of very important industries, the employment of many people and the well-being of important communities. When I received the invitation to appear before this Commission I happened to be in Paris and met over there the President of the Anaconda Copper Com-

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[Continued]

pany, which is the largest silver mine in the United States, although it is known as a copper mine. I asked him something about the relationship of his silver production to his operations—how important the price of silver was to the operations of his business. He replied: 'Silver furnishes us all our profits and hence a part of our expense. Naturally it is a very important factor in our business.'

15 101 'Furnishes all our profits?'—All the profits and a part of the cost. That is to say, it is a by-product of their business which itself is produced at very slight additional cost, and they rely upon it for the profits of their business. The Anaconda Copper Company is the largest mining enterprise in the United States, employing a very large number of people. I would not undertake to say how many, as I have not looked it up, but I should think not less than 25,000 workmen are employed by it. I know that the case of the Anaconda Copper Company illustrates the situation of most mines producing lead and copper in the United States. I could name a number of other copper and lead mines famous the world over, which are large producers of silver, for instance, the Broken Hill Company of Australia, the Burma Corporation of India, the Cerro de Pasco Mining Company of Peru (which is the largest silver producer in the world, but its main revenue is from copper), and the Mexican Corporation, a British Corporation here in London which is operating mines in Mexico. I mention those to show that this situation does not exist in the United States alone but is common to the silver producing industry the world over.

15 102 In view of the action that was taken by the United States Government to assist the British and Indian Governments with silver under the Pittman Act, in what way do you think a proposal of this nature to sell silver would be looked upon?—I do not think that I would want to base the sentiment upon what the United States did in that emergency. I do not think that that would be the factor of chief importance in it. I think the whole proposition would be viewed with very deep concern in the United States as something seriously affecting one of the important industries of the country.

15 103 I gather from you that if it came to the point of India needing to raise credits in the United States in order to carry out a scheme which would involve this manner of dealing with silver, whoever was concerned to give credit would have seriously to consider this matter of public opinion on the silver question to which you have referred?—No, you could be floated in the United States for a foreign country, or for use abroad (particularly if it was to be taken in gold) without the approval and the co-operation of the Federal Reserve Banks because that is where our gold is held. The Member Banks have neither the reserves nor the spare credit to handle such a loan without going to the Federal Reserve Banks for co-operation. Their funds are freely employed. If they were going to participate in such a loan they would need to borrow from the Federal Reserve Banks and arrange with them to supply the gold. Therefore I say that each a proposition must first have the approval of the Federal Reserve authorities. Then again while the United States Government has really no authority at law to forbid citizens of the United States from lending money abroad, as a matter of public policy it requests the Bankers not to participate in foreign loans, or offer them to the public without first submitting them to the Government for approval. No foreign loans are offered without first being submitted to the Government for approval and the Government has laid down the general rule that such loans at this time must be for reconstruction purposes. They must be of a character which class them as calculated to promote the general recovery of industry over the world. It is recognised that Europe is very short of capital, and no objections are made to loans in Europe which are clearly for reconstructive purposes, the stabilisation of currencies being

in that class. I might mention several loans which have been disapproved of by the Government and which therefore have not been offered in the United States. There was, for instance, what was known as the Potash Loan, the proceeds to be used in Germany, which appeared to be largely for the purpose of effecting a combination of potash producers and was deemed objectionable because it was thought that such a combination would not be in the interests of the potash consumers of the United States. On the whole, the loan was one which did not meet with the approval of the United States Government and the Bankers of New York did not participate in it. Another was the Coffee Loan to Brazil in which the Bankers of New York were offered participation. That loan was avowedly for the purpose of stabilising the price of coffee. Our Government took up the position that this was not a loan in which the people of the United States were interested or which could come under the general class of reconstruction loans and it was disapproved of and was not offered in the United States. I think you would have to consider that a loan to carry out this plan would meet with vigorous opposition, certainly from the silver-producing interests, and opposed by no little public sentiment.

15 104 It would be opposed by public sentiment?—To a considerable degree, yes, and by influences which have always been strong in the United States. I would not undertake to anticipate the action of the Government, I do not think it would be proper for me to do that, but I think you would have to count upon opposition.

15 105 (Sir Rajendranath Mookerjee.) You say in paragraph 46 'Even if sales by India should be left out of the account'—It is difficult to see how the current production of silver could be disposed of outside of India. Knowing the history of the currency difficulties in India, you cannot expect her to take more silver than she has been taking; rather one can go further and say she will not buy any more silver now but will do her best in future to keep out of the silver market. If that is so where and how will you dispose of the current production of silver?—In case India does not buy silver a large amount of silver will become unsaleable.

15 106 So the menace to the silver market would still exist if India does not come into the market for silver?—Yes, it will exist if India ceases to be a buyer of silver. I am assuming that under this proposal to sell 687 million ounces, India would practically cease to be a buyer of silver for some time and perhaps be a seller. In that event I do not see how the present silver production of the world could be absorbed, I cannot see where there would be an outlet for it. In that event I think the silver would pile up on the market and the price would fall until production was curtailed to the amount that could be consumed, and I do not see how that would occur without affecting those mines which are producing copper and lead in connection with silver. Therefore I take it that not merely the silver-producing industry but also almost the entire metal mining industry would be affected which very much broadens the scope of the influence. Furthermore, I doubt that under the conditions India will be able to realise the price for silver which seems to be contemplated. Those are the points I wish to make.

15 107 You say in your memorandum that the problem of restoring the world to a gold basis is dependent for success largely upon India. Will you kindly enlarge this as to why it should be so?—As I said a moment ago the takings of gold by India are large in any event and are likely to continue to be large. The chief danger to the efforts to bring the world back to a gold basis is the amount of gold which is being taken by India. It is large at best and we expect it to continue to be large because it always has been, but if India in addition to that is going to want 250 million dollars in the first year of this plan, over and above its ordinary and usual

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takings, then I think the whole plan and effort to bring this world back to a gold basis will be imperilled. Therefore I think it depends largely upon India whether we are going to be successful or not.

15,108 (Sir Manekjee Dadabhai) In answer to the Chairman you laid stress on all the countries of the world practising economies to the matter of their resources of gold?—Yes.

15,109 And you suggested as one means of bringing about those economies that there should be co-operation between the central banks of the world in the matter of reducing shipments of gold. That co-operation between the central banks of the world may be an ideal, but is it practical politics in the existing state of affairs with trade rivalry, and the desire of each country to secure for itself a larger share of business?—I recognise there are difficulties about it, but, as with all other international difficulties, I think we must endeavour to approach the matter in a spirit of co-operation, and endeavour to do what will serve the general interests best. Although there is competition there are matters in which co-operation is mutually advantageous. I think all countries will benefit from the general re-establishment of the gold standard.

15,110 But up to now there have been no indications of such co-operation on the part of the central banks of Europe, have there?—Conditions in Europe have been very unsettled and under the circumstances co-operation necessarily has been limited. These banking institutions cannot undertake serious risks. I do not suggest that kind of co-operation. The Federal Reserve Bank of New York, however, has arranged credits in several instances for central banks in Europe in order to enable them to draw without shipping gold notably upon the occasion of resumption by the Bank of England. I think there is a disposition among the banks to co-operate as may be practicable. Governor Strong of the Federal Reserve Bank of New York, I understand, will follow me, and he can answer those questions really more authoritatively than I can.

15,111 You know that India has got a large balance of trade to her favour?—Yes.

15,112 She would be justified in demanding in payment of her net balances of trade shipments of gold, would she not?—Yes.

15,113 Could you possibly refuse that demand of India on moral or equitable grounds?—I do not know how it could be refused, but if you develop your banking facilities in India and the gold goes into the banks' reserves, perhaps those banks can assist somewhat to the financing of world trade as other reserve banks do. If the habit of making investments in securities is developed in India I should think that perhaps they might take securities at times instead of gold, in the same way as between London and New York there is a constant movement of securities backwards and forwards which minimises movements of gold.

15,114 What securities?—Government securities and there is an increasing number of Corporations of world-wide reputation which have well-established credit in all markets.

15,115 In other words in your opinion India should invest her favourable balances in foreign loans. It comes to that does it not?—I think it would be better policy to do that than simply to hoard the gold. I would not say that it would not be better for India to develop her own corporations and her own industries and issue her own securities and all that would involve the use of this gold in some way, and under such circumstances in the long run India I think will come into the position of these other countries where trade offsets itself to a great extent and that while gold may go one way in one year it will go back in another year. I would like to see India come into the general concert and family of nations, as I think she would if she developed her banking facilities and the investment habit of the people.

15,116 That needs a standard of education among the masses?—Yes.

15,117 Which is a very slow process in India?—Yes. So far as trade balances are concerned, I think India must be paid in some way to her satisfaction.

15,118 And she would be entitled to demand gold?—Yes. I do not see how you are going to buy things from people unless you give them something that they want.

15,119 I have been very much impressed with your excellent memorandum in many ways, but I was a little staggered on hearing the statement which you made as answer to the Chairman regarding the potentialities for a gold supply in America. I gathered that you said there is not a large reserve which America could safely part with?—Well, I would not say we are down to the last dollar of reserves which we could spare, I would say that we just have a reasonable margin on which to go.

15,120 But it is a well known fact that during the war and after the war America accumulated enormous reserves of gold?—Yes. Our gold reserve has little more than doubled, and our bank deposits have risen from 18 billion dollars to 47 billion dollars in the same time.

15,121 In this period?—Between 1913 and 1925.

15,122 That includes the reserves of the Federal banks also, does it?—The deposits rose from 18 billion dollars to 47 billion dollars. That does not include the deposits in the reserve banks, because that would be duplication. I am talking about the original sources of deposits. I do not include bank deposits at all. If one bank has a deposit in another bank, I do not include it, because that is duplication.

15,123 Then the general impression which prevails that America has two-thirds of the world's gold is erroneous is it?—It is erroneous that it has two-thirds. The reserves of the United States are approximately, four billion dollars, and of the world very close to 10 billion dollars. That is about 40 per cent. The total stock of money in the United States, of all kinds, in 1913 consisted of 50 per cent gold and the rest other forms of money. In 1915 the percentage was 51 per cent gold and 49 per cent other kinds of money. That is the stock of all kinds of lawful money. I have already told you how the bank deposits of the country have increased in the meantime. In other words, the gross charge upon our gold reserves has increased in proportion to the increase in the gold reserves. To-day there is no additional lending power as the banks of the United States except as they go to the reserve banks and draw down their percentage of reserves. The whole theory of our reserve banks is that there shall be something in reserve there, that we shall not employ their resources all the time.

15,124 What effect do these large reserves in your various branches, and these large accumulations of gold, have on the internal prices of commodities in America?—The price level is a little higher in the United States than it is in Great Britain and in Europe at this time. That is because prices here have fallen in the last year. About a year ago, I think, the price levels were about the same in the United States and Great Britain, but in the last year they have fallen here and have remained constant over there.

15,125 Is not that an embarrassing circumstance?—It may affect our trade eventually, and it may force a lower level of prices there.

15,126 So, after all the possession of such a large accumulation of gold is not an unmixed blessing?—Quite so but it is a very unpopular move to restrict credits and reduce prices as a policy.

15,127 When was this new rule introduced in America saying that loans of gold should only be made for reconstructive purposes?—You understand that I am talking about foreign loans?

15,128 Yes?—The United States practically entered the foreign loan field after the War, and this rule has been in force during all that time.

15,129 You stated in answer to the Chairman that America lent 100 million dollars to Germany?—Yes.

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15,130 If India wanted 50 millions worth of gold in a couple of years time, would it be a drain on America if India is shown the same generosity as America showed to Germany?—I do not think that India is in quite the need of help in which Germany was. Germany was in a very desperate situation. She had no currency system at all. She was flat on her back, and Germany in the heart of Europe is an essential part of the whole European situation. The United States participated in an unofficial way. It is true, but nevertheless she had some part in the development of the Dawes Plan which includes the reconstruction of the German monetary system. These are special reasons why the United States should be interested in that German loan.

15,131 But you have laid great stress on co-operation between all the central banks of the world. Would it be unreasonable for India to expect that co-operation from the central bank of America?—I certainly think that India would have the same claim to co-operation if she could demonstrate that her plan was necessary to her prosperity and in the general interests. Certainly I think that then the claims of India would be entitled in respect, and would have a bearing, but I think that this plan as it is outlined here is not calculated to enlist sympathetic co-operation in the United States—certainly the silver part of it.

15,132 (Sir Henry Strakosch.) Referring to your most interesting statement that the gold cover to secure your structure of credit in America now is at the rate of 8 per cent, whereas before the war it was at the rate of 7 per cent?—That is right.

15,133 I wonder whether you would agree that that arises to a large extent from the fact that the purchasing power of gold has decreased since 1913?—Certainly. The general rise of prices has made it necessary to employ more money—more credit—in conducting even the same physical volume of business.

15,134 If the same volume of business were done to-day it would need something in the neighbourhood of 60 per cent more gold to give that structure of credit the same base as before the war?—That is true.

15,135 It has been suggested to us by one or two witnesses that, having regard to the great holding of gold in the United States and the fact that the United States is the most important creditor and can claim the repayment of debt in the form of gold it would be in the interests of the United States to appreciate gold so as to improve her position as a creditor and as a holder of gold. Is there any important body of opinion in America which would support such an idea?—There is not. I think that the general business interests of the country—the industrial interests—would be opposed to any such theory, and that they are far more influential than the mere theoretical consideration that we would gain as a creditor nation. The employment of our people, the matter of keeping our industries going and trade flowing freely is the dominant consideration, and any general effort to depress prices would bring business depression in the United States. We might easily lose an amount equal to all the debts we have coming to us if we demoralised our industries.

15,136 Her primary interest, therefore, is to maintain the level of prices of the present day?—Yes—stability.

15,137 And if she maintains the present level of prices then there would be no redundant gold or little redundant gold in the United States unless the structure of credit were reduced, which reduction would again react upon the level of prices?—Yes.

15,138 Therefore am I correct in saying that you believe that the amount of gold in the United States is no more than she wants and is not likely to be decreased because the policy will be followed of main-

taining prices stable at the present level?—That is my view.

15,139 Your reference to the development of banking in your memorandum encourages me to ask you one or two questions about that. Would you please give the Commission your views as to the benefits or otherwise which have accrued to the United States by the introduction of the Federal reserve system, as compared with the system which was in operation in the United States before the war?—It has given a far greater stability to the banking situation in the United States. Before the war we had no elasticity in our currency, for one thing. Gold was about the only element subject to change. If we needed an additional amount of currency, we had to bring it in from London. We had a certain amount of silver currency and of paper based upon silver. We had a certain amount of United States Notes—Government currency outstanding which is a fixed amount, always the same. We had National Bank Notes—another form of currency. You will observe that we have a very complicated system of currency in the United States, which we are not proud of, but the volume of National Bank Notes was practically a fixed amount. The National Bank Notes were secured by the deposit of Government bonds with the Treasury of the United States, and in as much as practically all the bonds outstanding were up as security all of the time, there was no elasticity in that currency. We had a practically fixed amount of currency, and we had a season of stringency every fall at the time of the crop moving season and at times this developed into bank panics. We had a number of occasions when there was a general suspension of bank payments over the country, simply for want of cash. Now these Federal Reserve Banks have the power of note issue. They are able to vary the volume of currency to suit the seasonal fluctuations of demand, and the result is the former periods of such stringency have disappeared as each individual bank has had at its disposal the resources of the Reserve Bank. It has inspired confidence throughout the country in the local banks to a much greater degree than existed before. It tends to reduce the danger of anything like banking panics.

15,140 Would you regard that system as a far safer one in case of any banking trouble?—Yes.

15,141 What would be your view if in 1907 there had been a federal reserve system in operation in the United States?—Would you say that the effects of the crisis would have been anywhere near as great as they were under the old system?—We would have had no such crisis at all.

15,142 You would not have had it at all?—There was nothing in the general business situation really to bring about such a crisis as that. It was a scare. Certain prominent operators in New York City became involved in trouble, and through them certain banks became involved, and then the country banks which kept balances in New York began to withdraw them. They read in the papers that there was a panic, and that there were bank runs on in New York, and they began to withdraw their balances. It very quickly spread all over the country. I was in Chicago at that time, I was president of a bank in Chicago. We got word that the clearing house in New York City had determined to suspend cash payments the following day, and we immediately got into communication with the clearing houses at St. Louis, St. Paul, Minneapolis, Kansas City, and other places, with the result that practically an agreement was reached to suspend cash payments the following day all over the United States, simply to conserve cash. We expected that there would be runs on us. If the country banks could not withdraw their money from New York City, they would naturally turn to Chicago, where many of them had funds. That would be the next point to be drawn on, and we determined that it was useless for us to attempt to pay if we were going to be drawn upon, not only for their normal demands on us, but also for the demands which would

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have otherwise gone to New York. We notified St Louis, and they said, "If New York and Chicago are going to close, St Louis can never stand up," and so it spread throughout the country.

15,143 Was that state of things due, do you think, to the fact that each bank held its own reserves?—Yes.

15,144 Without the power of recourse to a central institution?—Yes.

15,145 If there had been a central institution which held the reserves of the banks, and which was in a position to expand the currency according to law, such a thing could not have happened?—That is true, yes. It is a good deal like providing a water supply for a city as a defence against fire. If every house has to depend upon its own well or its own cistern you are not in a very good position to fight a fire.

15,146 So you regard it as of supreme importance that the reserves of the country should be centralised?—Yes.

15,147 And that this central institution should be endowed with the sole right of note issue?—Yes.

15,148 The argument has been put forward that India had not sufficiently advanced in its banking organisation to justify the establishment of a central bank, and that the central banking system in America had become necessary because of the great number of banks operating in that country. What would you say to that proposition?—You certainly have a considerable number of banking institutions in India and in different parts of the country, and that is, if you had a central institution to which any part of the country could apply for aid, and that central institution drew its resources in some degree from the entire country and was also endowed with the power of note issue so that it could supply currency to the demonstrations that were wanted—you would certainly be in a very much stronger position than if each locality had to support itself, and depend on its own resources.

15,149 I have one other question on this central banking problem. Do the Federal Reserve Banks carry on ordinary commercial banking business?—They do not.

15,150 They do not?—They do not.

15,151 Would you regard it as desirable that the central bank should carry on the ordinary everyday commercial banking business?—I should think not. It brings them into competition with the other banks of the country. There is only one argument for it which is of some consequence, and that is that in order to exercise a desirable degree of control over the money market it is necessary that the central bank shall be in the market to a certain extent. That, however, is accomplished with us by giving the banks authority to conduct what is called open market operations. They do not receive deposits from any except their own member banks, but they do buy securities and they do buy bills on the open market.

15,152 To enforce their policy?—To enforce their policy, yes.

15,153 But not because they consider it right that the Central Bank should carry on commercial banking?—No, it is in order that they may exercise a degree of influence upon the money market. They can relax the situation in the market or if they think conditions are becoming speculative and that inflation is under way, and that too much indebtedness is being created, they can force a rise in the interest rate at a time when they think it is desirable to check this unhealthy development.

15,154. One other question. It has also been suggested that a central bank for a vast country like India is unsuitable because economic conditions in various parts of the country differ widely.—Well, I should think that might be met by branches in the different sections.

15,155 In the United States you have found no difficulty?—We have, as you no doubt know, 12 reserve banks, which were established for that reason. That is the way we do it. We had two plans before the country. One of them, which was known as the Aldrich plan, contemplated one institution, but with 15 branches in different parts of the country, each branch to have a given territory allotted to it, but they were all united at last in this central institution. That plan met with objections largely because of certain antagonisms which existed in the interior towards New York. There was a fear that New York would dominate the whole system. The main central office was to be in New York, and the people in the West said, "New York will run the whole thing, and we do not want that", so the plan that was finally adopted divided the country into 12 districts and established an independent bank in each district with its board of directors in each district, all presided over by the Federal Reserve Board which sits in Washington, and the members of which are appointed by the President of the United States. That is the uniting bond between them, otherwise these banks are independent. Personally I favoured the other plan of one central bank. I thought it would give a great degree of unity to the system. I still think so, but you have to have regard for the opinions of people in different parts of the country, and if they suspect you of your influence with them, does not have very much weight.

15,156 In other words, it is a decentralised central reserve plan?—Yes, that is it.

15,157 Just one other question, with regard to silver. The United States have entertained rather close relations with China in trade. Have you any views as to the effect on Chinese trade and Chinese monetary policy if there were a danger of a severe drop in the price of silver?—I think it would be very demoralising to the Chinese trade. It would certainly upset existing conditions.

15,158 And might lead to China abandoning silver as its standard of value and adopting gold?—Yes, I think it would.

15,159 (Sir Reginald Vant.) Sir Henry Strakosch asked you whether there was any danger of deliberate appreciation of gold in America, and you said you thought not, because business interests would be opposed to it?—Yes.

15,160 Can you tell us whether there is any risk of the contrary process—the depreciation of gold? Is there any risk of prices rising through there being a little too much gold in America?—I think not, because you see it is all in use. The effect has been as we can carry on our present gold reserves except that as the reserve banks take on the loans and lower their percentage of reserves, I do not think, however, the reserve banks have any disposition to do that, nor do the member banks have any inclination to enlarge their borrowings as a permanent loan to the reserve banks. They went through all this experience in 1920. We had an enormous expansion in the post-war boom, which finally collapsed very deeply indebted to the reserve banks through their endeavours to satisfy the demands of their customers. The result was that when the fall in prices came, the banks suffered heavy losses, and the banks got a severe lesson. Both the business public and the bankers got a severe lesson and there is very little disposition on the part of either the business public or the bankers to have a further expansion of credit in the country by recourse to the Federal reserve banks.

15,161 It follows, I think, from what you have said that the gold reserves are not more than sufficient for the present position?—Quite.

15,162 And there is not any serious danger of inflation?—I do not think there is. We are apprehensive, of course, all the time of gold imports. We

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do not want them. We are lending heavily, of course, to Europe, which has the effect of preventing further importations of gold, and if Europe rights itself and gets back to a normal state, I do not think we will have further gold importations. That is the basis of the only apprehension there is as to further inflation. If gold would continue to come in and pile up in the reserves the tendency of bankers is to keep their resources employed of course.

15,163. Then your view is that America has not too much gold, but she does not want any more?—That is my view.

15,164. If she got any more there would be a risk of inflation?—Yes. We have adjusted ourselves to the present stock. If we had not got it all in use I think it would be just as well if we did not have so much, and our price level would be lower, but the task of reducing the price level is a very serious one. It deranges all business, and it would be a very unpopular move.

15,165. You have explained to us that the scheme put before you for introducing a gold circulation in India and disposing of surplus silver would not meet with a sympathetic reception in the United States. Supposing we were to come to the conclusion that India needs more gold for the purpose of strengthening her reserves—not for circulation and not in substitution for the silver in circulation, but to strengthen her reserves of currency and banking—and supposing we considered that she should gradually acquire that gold, would there be any opposition to that course in the United States?—I do not think there would if there was no radical change in her system, but merely a gradual acquisition of the gold thought to be necessary to stabilise her currency. I think she would have the same claim to that as any other country would have.

15,166. In fact, America would treat that claim sympathetically?—I think so. I see no reason for a different attitude. However, a general re-organisation of the currency which would involve the taking of, say, 200,000,000 dollars worth in a year in addition to the amount that India is ordinarily taking sounds very formidable.

15,167. There is just one other question I want to ask you, and that is with regard to the use of silver. You have stated in your memorandum that the purchases of silver by Governments for coinage purposes I have always represented the principal consumption and you have pointed out that there has been a decrease in those demands, and stated that you do not think they will be revived. Is not it a fact that the coinage was given up because of the large increase in the price of silver, and is not it possible that if there was a large fall in the price of silver various nations would take to silver coinage again?—I should not think so. The disuse of silver coin in Europe was mainly due to the great inflation of token money. Silver is not likely to be used except for subsidiary purposes. It is not likely to be adopted by the nations that have a gold standard currency as a full standard of value, and the amount of currency that is used for the smaller coins for subsidiary purposes is necessarily limited, and it increases only gradually. Taking the case of the United States, our subsidiary coins are half-dollars, quarters and dimes, which correspond to your half crowns, shillings and so on. They go out in the busy season of the year—in the fall of the year—and after the holidays they come back into the Treasury. The Treasury redeems them, and there is a regular flow in and out. I do not think that would be affected by the price of silver. It affects the profits of coinage, but it does not affect the demand by the public.

15,168. Then you do not think that a fall in the price of silver would lead to an increase in the consumption of silver on the Continent of Europe for coinage purposes?—For coinage purposes I do not think it would. It might to some extent prevent the substitution of a still cheaper substance or material like nickel, but I do not suppose that any more silver

is in circulation in Great Britain to-day because the silver content has been reduced to about 50 per cent than there was under the old Act when the percentage was eleven twelfths. In other words, the demand is created by the public.

15,169. Yes, but on the Continent small notes have taken the place of silver to a very large extent, and is not it possible that silver will come back into general use in place of small notes?—Well, small notes are still cheaper than silver, I suppose, if that is a consideration.

15,170. We have had that proposition questioned in India?—As to whether it is so? Well, I believe there is some question about it. Paper is quickly worn out. Answering your question generally, my impression is that a fall in the price of silver would not materially increase its consumption for coinage purposes. So far as my acquaintance with the currencies on the Continent goes, that is the case, though there may be instances where what you suggest would be true.

15,171. (Mr Purkothandas Thakurdas.) In paragraph 27 of your valuable statement you say that the essential thing is that the currency of a country shall have a stable relation to gold?—Yes.

15,172. You say "The essential thing is that the currency in circulation, and which the people receive in payment for wages and products, shall have a stable relation to gold." Would I be correct in inferring from our discussion until now that you prefer a gold standard to a gold exchange standard for any country, speaking generally?—I think that a gold exchange standard is an effective means of maintaining the internal currency at par with gold. I do not think the payment of coins into circulation and their common use in circulation is a necessary or important factor in maintaining the currency at par.

15,173. We will keep the coin question separate. I am at present referring to the standard you would recommend any country to adopt, you would recommend a country to adopt the gold standard in preference to the gold exchange standard if it could do it and afford it, would that be a fair inference to make from our discussion this morning the reasons being what you have said just now?—Yes, I think that if the conditions are suitable that would be so. During the period before the war, when we were having a rise in price level, the payment of gold into circulation tended to stabilise the situation. The absorption of gold into circulation at that time helped to stabilise prices. It depends a good deal on what the conditions are and the main point I have in view now is that we are in danger of a straitening of a scarcity of gold—in our efforts to restore the general use of the gold basis over the world. The essential thing is to get the countries all back to the use of a common standard of value so that prices the world over are related to each other, and you can make definite calculations as to what, say, the value of the rupee is going to be in dollars a year from now or six months from now, and similar calculations with regard to all the currencies of the world. If you could get them all on to one level, I think it would greatly promote the trade and industry of the world and the consumption of all peoples.

15,174. (Chairman.) It occurs to me that our phraseology by which we distinguish between a "gold standard without the circulation of gold" and a "gold exchange standard," may not be quite familiar to Mr. Roberts.

15,175. (Mr Purkothandas Thakurdas.) Would you help me Sir to put it in the way which you know I mean and that Mr Roberts will understand? I myself saw Mr Roberts' difficulty.

15,176. (Chairman.) I wanted to make it clear, Mr Roberts, that for the purpose, as it were, or shorthand in our discussions we are rather accustomed to speaking of a "gold standard with a gold currency" on the one hand, and of a "gold exchange standard" (in which the currency is maintained by an undertaking to buy and sell foreign exchange) on the other hand, and, in between those, of a

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Mr. CANADA F. ROBERTS

[Continued]

"gold standard without a gold currency," which might perhaps be described as a "gold bullion standard," in which the currency is maintained by an undertaking to buy and sell gold bullion. It is that that we commonly refer to as a "gold standard without a gold currency"—I understand your meaning. As I have said, the essential service of the gold standard is in maintaining the currency of a country in stable relations to the money of other countries and thus affording a common basis for prices. The gold exchange standard is a method of maintaining a currency at par with the minimum of gold actually in reserve. The Government undertakes to supply exchange as wanted by the public. This provides against any pressure for exchange which would disturb the relations, and if a country's internal finances are in order and it has a favourable trade balance the parity is maintained quite easily and with less expense than with a considerable gold reserve. I am not aware of any country in which the currency has depreciated so long as its currency was readily convertible at par in the principal money markets of the world. It would be shipped out until scarcity at home made it worth more there than outside. By this method a country is making use of the reserves of other countries. It may carry interest-bearing securities upon which they realise as needed or it may borrow to establish credits in certain central markets but if it draws against them the reserves of such markets quite likely will not be disturbed at all, for the gold probably will remain there. The system tends to a further concentration of reserves, to a development of a world clearing system, and to economy in the use of gold. Whether the so-called gold exchange standard is suitable to a country depends upon conditions. A centre of world trade and finance which is always carrying large deposits of foreign funds and must be able to respond to varying demands could not get along on the gold exchange standard. You could not think of an important clearing centre like London without the means of final settlement in its own vaults, but it is noteworthy that before the War London constantly handled a larger volume of international payments than any other centre on smaller reserves of gold. This was largely because of its assured creditor position which kept the balance of payments in its favour. As I understand the last British gold standard act, it practically provides for what you have described as the "Gold Bullion Standard." That is a very satisfactory system.

15,177 (Sir Purshotandas Thakurdas) You would prefer that in preference to a gold exchange standard?—Yes, subject to the consideration of cost but I do not think it is necessary for a country which does not have large deposits of foreign funds and which regularly has a favourable trade balance to acquire a very large stock of gold for that purpose. I think the organisation responsible should be prepared to give its currency for gold—to buy gold bullion if it is imported or sell it if wanted—at the parity. You have got to provide for a free movement of capital from one country to another.

15,178 Free movement of gold—inflow and outflow?—Yes, gold is the most liquid form of capital.

15,179 In paragraph 29 you say you do not believe that the countries of Europe will ever go back to the use of gold coin?—That is so.

15,180 You wind up that paragraph by saying that gold coin has become a rarity in any part of the United States. May I ask how, in your opinion, a suggestion that gold should be prohibited by Statute from circulating as a coin in any of the United States of America would be received by the people of America?—A Statute to prevent gold from circulating?

15,181 Let me explain it a little further. The people do not say themselves of gold coins because they are satisfied there is gold in the State Treasury,

and that all their paper currency is adequately backed by gold?—Yes.

15,182 If the Government suggested in the interests of any, rebuilding Europe on a sure basis that it was necessary for all countries statutorily to prohibit gold currency, how would the people of the United States of America receive such a suggestion?—I think everybody would wonder what was the occasion for any such Statute. If nobody wants any gold you would not need to forbid it. It would be a rather useless statute, I think, in the United States.

15,183 Perhaps it would never pass—such a law would never pass, perhaps?—I do not see why anybody should advocate it.

15,184 Anyway, the people would not cut out gold currency by Statute, but when they are satisfied there is gold in the Treasury they do not and would not use gold coins. That is the position, is it? Now regarding your observations with regard to the development of a modern banking system in India, may I ask just for information if you could tell me how many banks existed in the United States of America before you started the Federal Reserve Banks as we see them to-day?—We had nearly as many as we have to-day.

15,185 Could you give me the approximate number of banks operating in America to-day?—I think it is about 30,000.

15,186 Before you started your Federal Reserve Banks you had a network of 30,000 private banks working on their own in America?—Yes.

15,187 You have, if I may say so, very modestly said you have little personal knowledge as to conditions in India, but you have also told us that you were a Director of the Mint, and in that position you must have come to know clearly of the general financial conditions prevalent in India?—Yes.

15,188 If it happened to be approximately correct that in India to-day you have not more than 25 banks of important standing operating all over the country on a modest scale, and carrying on banking operations as they are known in the West, would you say that the starting of a central bank on the ideal lines on which you have central banks in Europe is a prime necessity for India to-day?—May I ask whether, when you speak of 25 banks you are referring to 25 banking corporations, or does that number include their branches?

15,189 I am referring to banking corporations?—They have branches?

15,190 Yes, they would have, say, three branches each, or take whatever number you like—say, 400 branches?—Under our laws we have not been permitted, except in certain States to have branch offices. The whole scheme has been to decentralise the banking business, to have each community supply its own banks. That has been the general policy, and that is the reason we have so many. If you go right across our border to Canada I think they have now 11 banking corporations with some 4,000 offices.

15,191 Eleven banking corporations?—Eleven banking corporations but with some 4,000 offices.

15,192 I take it that by "offices" you mean branches?—Yes, branches where they conduct business. They have a bankers' association in Canada by which they co-operate in their policies, but I think there is a considerable discussion over there now about forming a reserve bank with the idea that it would be an advantage to have a central bank of issue. Of course, in that case the opinion of the bankers is influenced somewhat by the way they think it would affect their own established business, but I should think that a central institution for Canada, where all these banking facilities would head up would be desirable. I speak of Canada rather than India because I know more about it. There are only 11 banking institutions in Canada so I do not think the small number argues against the policy.

15,193 I note you do not wish to discuss Indian conditions but you have given us what you state to be a fairly parallel case in Canada. I do not want



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Mr GEORGE D. ROBERTS

{Continued}

or the Government in India with to suggest to them, such system is bound to fail? One must evolve a system of currency which will command the confidence of the people for whom it is designed?—My statement was in relation to the organisation of the Federal Reserve system in the United States of America. I am a banker in New York, and in the Western country they had a feeling that an institution with headquarters in New York would be operated for the benefit of New York. I think they were entirely mistaken in that view. We bankers of New York are not conscious of a desire to manipulate the banking system to our interest at all. New York is the chief city of the United States because it reflects the prosperity of all that interior country, and if there is a crop failure or anything else that disturbs prosperity in the interior, we suffer from it in New York. We have a keener appreciation of that than they have. We know it is so, and we know we are interested in having a prosperous America throughout, so we do not feel that their suspicions were justified.

15 220 But in spite of all that, you did not press to your point of view on them, although you were convinced it was right?—We pressed it strongly enough, but they outvoted us.

15 221 If it is a question of voting, then confidence goes with the system which is approved on votes, does it not? But where it is not a question of voting only you would like certainly to be a party to something, which would inspire the confidence of the people?—I think it is very desirable that there should be confidence, of course, especially so in matters affecting a monetary or banking system.

15 222 (Chairman.) One of the issues before us is as to whether the time has come at which it is prudent now to fix the actual ratio for the standardisation of the gold value of the rupee. In order to decide whether it is prudent now to fix the actual ratio at which the gold value of the rupee is to be stabilised, it is necessary to consider whether it is possible to foresee any factor likely to create a great upset in gold values and gold prices in the world, because it is argued that if there may be such a great disturbance to gold prices ahead it might be prudent for India to postpone the actual stabilisation

ratio of the rupee. It is suggested to us in evidence that one such factor that should be taken into consideration is this matter to which we have already referred, of a gold holding in the United States. The argument is put in this way. It is said that there is an excess of unwanted gold in the United States, and that some day or other by a change of monetary policy in that country, that may be turned loose and result in a great upset in gold prices, and that that is one possibility ahead which would make it prudent to wait before stabilising the exchange value of the rupee. Now you have already given us very valuable views on this subject, but could you just carry the deduction one step further, and say whether you would draw any conclusions from what you have just told us about the position of gold reserves in the United States upon this question as to whether there is anything which would make it prudent to wait before stabilising the value of the rupee?—I do not think there is anything in the gold situation in the United States to occasion alarm or apprehension as to a sudden change of prices. There are no great reserves in the United States to be put into use. There is no likelihood of a sudden inflation to disturb prices in the United States.

15 223 Thank you very much. In the various matters which we have referred to you and the various questions we have asked you, is there anything to which you would like to return by way of further comment?—I think not. I think I have expressed myself as fully as I am able on these points in my statement and in the replies I have made, and I have nothing more in mind at the moment to say.

15 224 It only remains for me to express our very deep appreciation for your most helpful evidence today.—I thank you, gentlemen.

15 225 Our thanks are due to you for putting yourself to what must have been the considerable inconvenience which a visit to England must have caused you?—I have been very glad to participate and give you my views as I hold them. I trust they may be of some service.

15 226 (Chairman.) They are of very great advantage.

(The witness withdrew.)

## FORTY-EIGHTH DAY.

Friday, 7th May, 1926.

## PRESENT

THE RIGHT HON. EDWARD HILTON YOUNG, P.C., D.S.O., M.P. (Chairman)

SIR RAJENDRANATH MOOKERJEE K.C.I.E.  
K.C.I.O.  
SIR MONCOT HASTINGS JAMES WARREN K.C.I.E.  
SIR REGINALD MAYE, K.C.I.E., C.S.I.  
SIR MAXWELL DRYDEN DABBS K.C.I.E.  
SIR HENRY STRAKOSCH K.C.F.  
SIR ALEXANDER ROBERTSON MURRAY, C.B.I.

SIR PRUTHIYANTRA THAKURDAS, C.I.F. M.B.L., M.L.A.  
PROFESSOR JAHANGIR COORGEES COCHRAI  
MR WILLIAM EDWARD FRITHON

MR C. H. BAXTER } (Joint Secretaries)  
MR A. AYANGAR }

MR BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York) Dr JACOB H. HILANDER (Professor of Political Economy, Johns Hopkins University, Baltimore Maryland), and DR OLIVER W. W. STRAUSS (Professor of Banking and Finance, Harvard University, Cambridge Mass.) accompanied by Mr ROBERT YORKS called and examined.

15 227 (Chairman.) Mr Strong, I should like in the first place to express the very high appreciation of the Commission at the fact that so eminent a citizen of the United States accompanied by such

distinguished colleagues should have been willing to come and assist us on the subject of our inquiry to-day undisturbed for that purpose so protracted a journey and, I fear, such prolonged labours in

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Mr BENJAMIN STRONG, Dr JACOB H. HOLLANDER,  
and Dr OLIVER M. W. STRANGE

[Continued]

period of conversion and non-conversion is presented or a further accumulation of gold must be arranged or the metallic cover of the bank must be exposed. Finally, upon the completion of the project, rupees in large amount are to remain in circulation of limited legal tender, together with bank notes convertible into gold, and an amount of gold coin. The question of preserving parity between constituents thus becomes an additional element of difficulty in the plan. A country circumstanced as India has quite enough to do in maintaining the gold standard. If, in addition to the maintenance of the standard as such, there is the further problem of maintaining parity between the constituents of the currency, an additional burden is assumed. This burden is real, whether it be a formal provision of the system or whether it be only a policy. I mean to say the gold standard implies the necessity, whether it be set forth in law or merely in administration, that the constituents of the currency be maintained at parity. The existence of this great stock of 150 crores of rupees of limited legal tender quality practically leaves India with a vast supply of subsidiary or token currency. The ordinary principle of token currency. The ordinary absorb only an amount adjusted to its requirements. If more than this amount is present it is ordinarily redeemed by the Government. If it is not redeemed it inevitably goes to discount. So either the amount must be not in excess of the absorptive power for this limited legal tender currency or a condition of disturbed parity exists, imposing upon the Government the necessity for maintaining convertibility between the constituent elements of its currency.

(xii) The third comment has to do with the factor of costliness. One of the penalties of a gold standard with gold in circulation as against a gold exchange standard is its greater cost. But India presents a further factor. The passage to a gold standard with gold circulation involves not only the use of a more costly money material but drags with it the necessity of converting into this costly material a great mass of non-circulating money. The plan estimates the annual cost during the transition as 11 crores, thereafter, as one crore. Here again these estimates I am doubtless well prepared with care, and I cannot question them. But no allowance is made for the possibility of further and intermediate borrowings. If more gold is needed or if silver falls below 244—and as I have stated these are immenently likely developments—the cost of the system would, of course increase correspondingly. Barring the gold in the currency reserve to be used forthwith, and the realisation proceeds of the silver and the sale of securities in the exchange reserves no further resources seem to be available. Further borrowing would increase the cost and would mean increased taxes or reduced expenditures. It is an expenditure which may be justified but for which a price must be paid.

(xiii) Finally and perhaps the most important consideration is the grave social injustice, as recorded but real, which the proposal threatens to impose upon a great part of the people of India by a fall in the world price of silver. If the fall be as estimated to 244, a great injury is done and if it falls below an even more severe injury is done. This may affect the unredeemed rupees ultimately invested of full legal tender quality. There may be some question as to this consequence in view of the limited legal tender quality. But certainly no doubt exists with respect to the effect upon the great savings in uncoupled silver. It seems to me that monetary discussion has here permitted a term to fashion a concept. The use of the word 'board' as applied to these stores of uncoupled silver suggests an entirely different origin and purpose from that which seems correct. In reality they are savings which owe their term to immemorial tradition and practice. They are savings accumulated at the cost of denial as I sacrifice and intended, as the savings of other peoples to meet contingencies of illness, old

age or economic pressure. The gravity of a proposal which would further encroach upon the purchasing power of these savings, already injured by the rise in prices, presents itself to the Western mind as akin to the injuries brought about by war and post-war price inflation and the depreciation of purchasing power of the monetary unit. In the matter of savings bank deposits the cruelty inflicted upon a great body of the population at finding that the accumulations brought together over a term of years and designed definitely for relief or support have been cut into by a third or a half, as it were by an unseen hand, develops a resentment which, in my country at least, has been profound and bitter. It may be proposed to raise the domestic price of silver above the world price by an import duty, assuming that the domestic demand continues and that no further release from the domestic store of silver occurs, but I submit that this masks or postpones the injustice but does not lessen it. The Indian purchasers of silver would be buying silver at the world price plus the import duty, and the fiction encouraged of an artificial value in the way of an Indian price as compared with the real value represented by a world price. If import duties should go to the extent of prohibition, the same conditions would be established with the added difficulty of attempting to exclude a valuable metal from a wide frontier.

(xiv) I come now to my final criterion—the practicability of the proposal. This after all, is the determining consideration. Timeliness and soundness may, at cost, be neglected, but not practicability. Within the limits of prudent action it seems to me that this plan, or any related proposal calling for a large immediate supply of gold, is not practicable. Fifteen millions sterling are required at the inception of the plan and 30 millions additional within the first year. These amounts must be assured, together with some more or less undefined commitment as to such further aid as may be necessary because of under-estimate—all of this within the first year. The possibility of securing such an amount of gold entirely independent of the United States may be dismissed. The United States must figure in it to a greater or less degree, either as the direct source or as the indirect source from which a substantial part of this 50 millions sterling must be secured. Indirectly it involves the idea of securing gold, in the first instance, from other quarters with ultimate incidence upon the United States. The penalties and the burdens of this procedure will be discussed by Governor Strong and Professor Sprague, and I will not refer to them. As a matter of fact, the direct provision by the United States of a substantial part of the gold required seems to have been clearly designed. The questionnaire suggests that 23 millions sterling should at the outset be provided by London and 150 million dollars by New York. This is probably a minimum and without any expectation that London's quota would be transferred indirectly to New York. The plan thus seems absolutely conditional upon a large credit in the United States, and secondly, upon this credit being realised in gold first as to credit supply. The events of the last 10 years have made the United States in a new sense a centre of capital supply, but it is in no sense an over-supply. The domestic requirements of the United States are large and increasing. The demands of partly related markets are urgent—South America and elsewhere. The capital needed for European restoration and development is very great. These constitute claimants which are entirely in excess of the available fund of capital in the United States seeking investment. The policy has accordingly developed even though it may not have been crystallised into a formula and is always subject to departure by the ambitions of competitive banking that advances of capital ought to be made by the United States for productive purposes—restoration and development, that in a rough way they should be allocated, that is, the entire series

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Mr BENJAMIN STRONG, Dr JACOB H. HOLLANDER,  
and Dr OLIVER M. W. SPROAGUE

[Continued]

(iv) In recent years there has been some tendency to an increase in the industrial use of silver. A limited amount is being taken for use in the motion picture industry in the form of silver nitrate. This particular use of silver, however, is limited. The use of silverware might be stimulated somewhat by a decrease in the price of silver, but in general the cost of the silver in such products is small compared with the cost of labour, so that the amount of increase in consumption in this direction is limited. At present there does not appear to be any direction in which the use of silver would be largely increased by a decrease in the price.

(v) The present status of the demand for silver may perhaps best be indicated by the recent price movement. While production is at present at about the same rate as before the war, prices have for a number of years been weak relative to the movement of prices of general commodities, as is shown by the accompanying diagram, which compares the average annual price of silver, taking 1913 as 100 per cent, with the index for all commodities of the United States Department of Labour. There is also plotted on the same diagram the group index for farm products, because that is a group of products the price of which has been the occasion for much discussion

because it has been low relative to other prices. The chart indicates that the price of silver has been low not only relative to all commodities, but low relative to farm products as well, and the present price of silver is only 13 per cent higher than in 1913 and about the same as in 1906 and 1907.

(vi) *Silver Production*.—The second possibility is that a reduction in the demand for silver and an increase in the available supply might be accompanied by sufficient elasticity in the production to prevent too serious a price decline. It is necessary, therefore, to proceed to an examination of the world's production.

(vii) Of the 210 million fine ounces of silver produced in 1925 176 million or 83 per cent, were produced in North America. The balance of production is scattered widely throughout the rest of the world. The only detailed cost statistics available are for the North American companies, a large proportion of which are owned largely in the United States.

(viii) Two sources of information are available for the purpose of this report. (1) The statements of the companies producing silver published in their annual reports or in the Year Book of the American Bureau of Metal Statistics or other hand books, and (2) a set of confidential reports on costs, which were submitted by the principal producers to the United States Senate Commission of Gold and Silver Inquiry, appointed in 1923.

(ix) A study of the published statements of the individual concerns has been made by Mr Arthur Notman, Mining Engineer and Geologist, and his report is attached. An independent study of the confidential data submitted to the Senate Commission has been made by Mr H. A. C. Jensen, formerly expert for that commission, and now Consulting Mining Engineer for the Guaranty Trust Company of New York, and his report is also attached. In his report it has been necessary to conceal the names of the companies because the data were obtained under conditions that they would be kept confidential. No summary of these data has hitherto been available.

(x) For a detailed study of the effects on the mining industry in the United States, Mexico and Canada, reference may be made to these reports but their findings may be summarised briefly here.

(xi) The nature of silver production in the United States is shown in the following table\* and diagram. About one-third of the production is from dry and siliceous ores the major product of which is silver, although there is also a by-product of gold which is an important element in the yield of a number of the mines. The other two-thirds of the country's silver production is a by-product of the mining of copper and lead, with the exception of about 6½ million ounces which is derived from zinc ores and complex ores. No such precise division of production into types is available for the silver produced elsewhere in the world than in the United States but it may reasonably be assumed that the production in Mexico shows a somewhat similar distribution between types. The effects of price changes on silver production under three classifications may be commented upon as follows—

- A. Computed from the Mint price.  
B. Computed from the price as reported by the Director of the U.S. Mint.  
C. C. As reported by the Bureau of Labor Statistics U.S. Department of Labor.

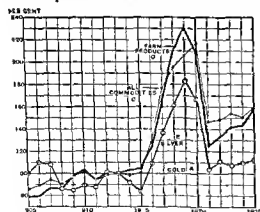


CHART 2

Price Index of Gold, Silver, Farm Products and All Commodities in the United States based on 100 in 1913

1905-1925

\* The table is not reproduced here but is printed as Table 1 to Appendix No. 28.

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Mr BENJAMIN STRONG Dr JACOB H HOLLANDER,  
and Dr OLIVER M W SPRAGUE

[Continued]

be quite intelligible if, after the price had gone down a bit in the world market it should then take a sudden tumble in India preceding an analogous decline outside. I do not know that that would take place. It is merely an hypothesis designed to illustrate the uncertainties which a cautious Government should take into account in embarking upon this plan.

15,283. I only want to bring out clearly that when it is alleged that the price of silver will go down if there is any change in the form of currency in India and silver is sold America should not overlook the possibilities and potentialities of the internal consumption of that silver which will be discarded as coin, since there is a great potentiality of its use in another shape?—In India?

15,284. In India?—I have supposed that there was a growing preference for gold as against silver and that although for certain ornamental uses silver is still preferred, there is an intermediate ground in which you can find evidence of some displacement of silver in favour of gold. I simply wondered whether a tendency of that sort, if it exists, might not be accentuated, or, if it does not yet exist, might develop.

15,285 (Sir Maneckji Dadabhai) But some displacement must always take place when any form of currency is changed. That is inevitable?

15,286 (Chairman) I understand the force of your reply is this—In so far as you diminish the cer-

tainty of the value of silver as a metal, people will turn to gold?—Yes. One of the most serious uncertainties of this plan as I see it is the possibility that it may lead to the accentuation of the habit of acquiring gold as a store of value. The plan seems to me to presuppose that the introduction of gold currency will tend in course of time to lessen the acquisition of gold for non-monetary purposes. That I believe to be exceedingly doubtful in the first stage, for I believe that the blow given to silver as a store of value will tend for the time being to accentuate the tendency to acquire gold, and, in this second place, I do not believe that the use of a gold currency is calculated to weaken the tendency to accumulate gold, but possibly, only to facilitate it. The habit of accumulating gold in non-monetary forms will be weakened in course of time as doubtless is the case to some extent now, by the development of banking, by the spread of the habit of investment, and by the development of insurance for the benefit of oneself or one's family and so on. A great variety of ways or substitutes will, in course of time, no doubt tend to diminish accumulations of gold in non-monetary forms, but I do not believe that the mere use of gold currency will contribute very much in that direction, and almost nothing at all dissociated from those agencies that I have indicated.

15,287 (Sir Maneckji Dadabhai) Thank you very much. I will refer to the gold aspect of the matter later on.

(The witnesses withdrew.)

## FORTY-NINTH DAY.

Monday, 10th May, 1926.

### PRESIDENT

THE RIGHT HON. EDWARD RITCHIE, M.P. (Chairman)

SIR RAJENDRANATH MOOKERJEE, K.C.I.F. K.C.V.O.  
SIR HORACE HASTINGS TREVELYAN, K.C.I.E.  
SIR RICHARD ALSTON, K.C.I.E., D.S.J.  
SIR MANECKJI BYRAMJI DADABHAI, K.C.I.E.  
SIR HENRY STRICKLAND, K.B.E.  
SIR ALEXANDER ROBERTSON MURRAY, C.B.E.

SIR PRINCEPAMBAI TRAKETRIAR, C.I.E. M.B.E., M.L.A.  
Professor JAHANGIR COOPERJEE, COTAIAR.  
Mr WILLIAM EDWARD PRESTON.

Mr G. H. BAXTER (Secretaries)  
Mr A. AYNGER.

Mr BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York), Dr JACOB H. HOLLANDER (Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland), and Dr OLIVER M. W. SPRAGUE (Professor of Banking and Finance, Harvard University, Cambridge, Mass.), accompanied by Mr ROBERT B. WARREN (of the Federal Reserve Bank of New York) recalled and further examined.

15,288 (Chairman) Dr Sprague on the last occasion we had concluded the assistance we were receiving from you on the silver aspect of this Scheme. To-day we propose to proceed with the gold aspect of the Scheme. I understand that it will be convenient in the first place if Mr Warren were to read to us a summary of some information which you have prepared on this aspect?—(Dr Sprague) Yes.

15,289 (Chairman) Mr Warren, will you assist us in that regard?

15,290 (Mr Warren) (i) This is a memorandum on the gold production and consumption of the world, prepared by Mr W. Randolph Burgess, of the Federal Reserve Bank of New York.

### COMMENTS ON GOLD PRODUCTION AND CONSUMPTION

In estimating the probable balance between the world's production and consumption of gold the basic available facts are the production in countries in past few years and the consumption by countries. These facts are presented in the following tables as

nearly as it has been possible to estimate them from the available data. The production figures are obtainable in moderately accurate form. The consumption figures have been collected from a variety of sources, and in general the computations by Mr Joseph Kitchen have been followed for the years through 1922. These figures are supplemented in

\* i.e., the scheme for a gold standard with gold currency, vide App. 30 (B).

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Mr BENJAMIN STRONG Dr JACOB H. HOLLANDER,  
and Dr OLIVER M. W. SPRAGUE

(Continued)

Table No 2 by data giving the net imports and the exports of gold in different countries for the years 1900-1909. The situation with regard to the production of gold may be summarised by saying that in the past few years production has been increasing slightly, but has been

50 to 75 million dollars less than the pre-war figures. A number of the gold mines are reported as making very little profit at the present price level, and unless new gold discoveries are made there appears to be little immediate prospect of any increase in gold production beyond present figures.

TABLE 2  
Gold Production of the World, by Countries  
(In millions of dollars)

Year	United States	Canada	Mexico	Central America	South America	Europe	Australia	Asia	Africa	World
1900	79	28	9	1	11	23	73	22	9	255
1901	74	24	10	1	12	25	77	23	9	262
1902	80	21	10	2	13	25	82	23	39	296
1903	73	19	11	2	11	27	89	27	64	328
1904	80	16	13	1	10	27	88	25	86	347
1905	88	15	16	2	11	25	86	23	113	340
1906	94	12	18	2	11	25	82	24	135	402
1907	90	8	19	2	12	30	76	21	152	413
1908	94	10	22	3	12	31	73	20	167	412
1909	100	9	21	3	11	36	71	20	171	434
1910	96	10	25	4	11	40	65	18	175	455
1911	96	10	25	4	12	36	60	26	191	472
1912	93	13	24	5	13	27	54	27	212	467
1913	83	16	19	5	12	31	53	29	207	419
1914	94	16	4	2	13	30	47	29	202	419
1915	101	19	6	3	15	29	43	24	218	463
1916	92	19	8	4	15	23	40	28	224	434
1917	84	17	9	3	14	17	31	27	211	420
1918	67	14	17	3	14	15	31	25	197	384
1919	60	16	16	3	13	11	27	23	194	346
1920	51	16	15	3	12	2	24	24	184	335
1921	50	19	14	2	14	2	19	23	187	330
1922	49	26	15	2	15	4	19	22	165	319
1923	50	27	16	2	15	7	18	24	210	368
1924	51	32	16	2	15	14	17	23	213	383
1925	49	36	16	—	15	26	15	23	215	346

## Sources

1900-1912—Director of the Mint  
1913-1921—Gold and Silver Inquiry Serial 3, p 7  
1922-1924—Director of the Mint  
1925—Estimated from preliminary figures of American Bureau of Metal Statistics

TABLE No 2  
Net Imports or Exports of Gold for Various Countries  
(In millions of dollars)  
Net Import + Net Export —

Year	United States	England	France	Switzer land.	Japan
1900	+ 13	+ 34	+ 64	—	—
1901	+ 3	+ 24	+ 55	—	— 0 4
1902	+ 8	+ 29	+ 61	—	+ 4
1903	+ 21	+ 5	+ 56	—	+ 4
1904	+ 36	+ 5	+ 103	—	+ 10
1905	+ 3	+ 39	+ 120	—	+ 7
1906	+ 109	+ 15	+ 52	—	+ 7
1907	+ 89	+ 29	+ 56	—	+ 6

2 Notes of British Imports and Exports of Gold.

The Annual Railway Letter for 1913 issued by Samuel Montagu & Co. contains the following statement (page 11) —

"The large stores of exports over imports arises from the fact that gold entering has been usually dealt at on us value and its exit has been calculated at market value. The official statistics for 1921 were as follows —

Gold Exports	£ 29,548,000
Gold Imports	49,648,000

Excess of Imports

According to Montagu & Co. if the imports had been taken as calculated at market value and the average gold premium of the year added, the results would have been as follows —

Gold Imports	£ 67,691,000
Gold Exports	49,648,000

Excess of Imports

TABLE No 2—(continued)

Year	United States	England	France	Switzer land.	Japan.
1908	+ 31	+ 19	+ 102	—	+ 7
1909	+ 89	+ 31	+ 35	—	+ 36
1910	+ 1	+ 29	+ 31	+ 11	+ 3
1911	+ 19	+ 44	+ 24	+ 8	+ 8
1912	+ 19	+ 29	+ 42	+ 10	+ 5
1913	+ 23	+ 63	+ 99	+ 6	+ 10
1914	+ 165	+ 13	+ 141	+ 10	+ 9
1915	+ 491	+ 136	+ 15	+ 3	+ 8
1916	+ 531	+ 102	+ 12	+ 23	+ 31
1917	+ 181	—	+ 15	+ 6	+ 118
1918	+ 31	—	+ 3	+ 16	—
1919	+ 292	—	+ 11	+ 21	+ 162
1920	+ 95	+ 122	+ 18	+ 7	+ 196
1921	+ 667	+ 192	+ 11	+ 19	+ 63
1922	+ 238	+ 242	+ 3	+ 19	+ 0 4
1923	+ 234	+ 491	+ 3	+ 13	—
1924	+ 258	+ 442	—	+ 21	—
1925	+ 134	+ 39	—	—	+ 13

The Director of the Mint (Annual Report 1925, page 131) gives the average premium on gold in London as follows —

Year	Per cent
1920	42
1921	36
1922	10
1923	6
1924	10

By applying these percentages to the official statistics of imports, the following figures for net movements of gold are obtained —

Year	In millions of dollars.
1920	— 122
1921	+ 19
1922	+ 24
1923	— 45
1924	— 49

The official figures used as a basis for the above results are as follows —

1920	— 204
1921	— 49
1922	— 19
1923	— 63
1924	— 68

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[Continued]

## Sources

England 1900-1923—Trade and Navigation of the  
U.K. in Gold and Silver Statistics Serial 3  
p 1431923-1925—Trade and Navigation of the  
U.K.France 1900-1908—National Monetary Commis-  
sion, Vol 21 p 3471909—Statistical Abstract for France and  
other Foreign Countries p 901910-1923—Documents Statistiques sur le  
Commerce de la France en Gold and Silver  
Statistics Serial 3 p 146Switzerland 1910-1923—Gold and Silver Euro-  
pean Currency and Finance p 401 Serial 9Japan 1901-1910—Financial and Economic  
Annual of Japan 1910 pp 98-991911-1924—Financial and Economic  
Annual of Japan, 1925 pp 102-3Net Imports or Exports of Gold for Various  
Countries

(In Millions of Dollars)

Net Import + Net Export -

Year	Germany	India,*	Italy
1900	+ 30	+ 0.3	- 3
1901	+ 49	+ 6	- 2
1902	+ 8	+ 9	+ 4
1903	+ 43	+ 32	+ 26
1904	+ 86	+ 31	+ 4
1905	+ 35	—	+ 29
1906	+ 65	+ 48	+ 21
1907	+ 8	+ 56	+ 20
1908	+ 83	+ 14	—
1909	+ 5	+ 70	- 5
1910	+ 43	+ 78	- 3
1911	+ 28	+ 123	- 2
1912	+ 40	+ 110	- 3
1913	- 76	+ 70	- 5
1914	—	+ 25	+ 1
1915	—	- 4	+ 3
1916	—	+ 43	- 0.2
1917	—	+ 80	—
1918	—	- 18	+ 0.2
1919	—	+ 115	+ 1
1920	+ 4	+ 10	+ 3
1921	- 0.07	- 14	+ 1
1922	- 2	+ 200	+ 7
1923	+ 0.7	+ 142	+ 5
1924	+ 16	+ 344	—
1925	+ 133†	+ 110	—
1926	—	—	—

\* Fiscal year basis, e.g., figures for 1903 include April  
December 1902 and January March, 1901 etc.

† Increase in Reichsbank's gold holdings.

## Sources

(Germany 1900-1907—National Monetary Com-  
mission Vol. 211908-1912—Statistical Abstract for the  
Prin and other Foreign Countries 1901-1912  
pp 96-971913-1924—League of Nations  
Balance of Payments Vol IIIndia 1900-1910—Shirras Indian Finance and  
Banking1913-1919—Statistics of British India  
Statistics Dept 19201920-1922—Report of the Operations of  
the Currency Dept. India 1921-19221923-1924—Report of Controller of Cur-  
rency 1923-1924 p 65

1925-1926—Samuel Montagu and Co

Italy 1900-1909—Statistical Abstract for the  
Prin and other Foreign Countries 1901-1910  
pp 96-71910-1923—European Currency and Fi-  
nance, Serial 9Net Imports and Exports of Gold for Various  
Countries

(In thousands of dollars)

Net Imports (+) Net Exports (-)

Year	Denmark	Peru	Portugal	Finland
1900	—	+ 1815	—	—
1901	—	+ 146	—	—
1902	—	+ 394	—	—
1903	—	+ 1703	—	—
1904	—	+ 1961	—	—
1905	—	+ 1664	—	—
1906	—	+ 2492	—	—
1907	—	+ 2778	—	—
1908	—	+ 277	—	—
1909	—	+ 667	—	—
1910	—	+ 2487	—	+ 703
1911	—	+ 1477	—	+ 2123
1912	—	+ 477	—	+ 2093
1913	—	+ 331	- 354	+ 5
1914	+ 6353	+ 530	- 461	+ 3
1915	+ 5335	+ 15	+ 974	+ 2
1916	+ 13963	+ 462	+ 81	+ 3
1917	+ 5702	+ 13,500	+ 14	+ 4
1918	+ 5691	+ 360	+ 45	+ 8
1919	+ 11738	+ 1460	+ 29	+ 3
1920	+ 302	+ 3416	+ 50	+ 167
1921	—	+ 409	—	+ 64
1922	—	- 487	—	—
1923	+ 2	—	—	—
1924	+ 39	—	—	+ 103
1925	—	—	—	—

## Sources

Denmark 1914-1920—Danmarks Vare Indg-  
førsel to Black Book1921-1924—United States Director of  
the MintPeru 1900-1909—Statistical Abstract of Peru  
1910 p 761910-1922—League of Nations Balance of  
Payments Vol IIPortugal 1913-1920—Comercio e Navegacao 1917  
LVIIIFinland 1910-1921—League of Nations Balance  
of Payments Vol II1922-1924—United States Director of  
the MintNet Imports and Exports of Gold for Various  
Countries

(In thousands of dollars)

Net Imports (+) Net Exports (-)

Year	Nether- lands	Roumania	China	Australia	New Zealand
1910	+ 1106.0	+ 3503	—	- 15932	- 7998
1911	+ 7164	+ 1503	—	- 4834	- 5983
1912	+ 13263	- 68	+ 5570	- 50467	- 6336
1913	+ 3061	+ 780	- 1012	- 8207	- 52.0
1914	+ 47752	- 218	- 8711	- 3660	- 1114
1915	+ 59890	+ 1035	- 10783	- 47.76	- 5348
1916	—	—	+ 9393	- 54118	- 8.7
1917	+ 38284	—	+ 9117	- 13800	- 4404
1918	- 5984	—	- 1378	- 964	- 204
1919	+ 67503	+ 6	+ 5813	- 7819	- 6497
1920	- 410	—	- 21.07	- 25778	- 4341
1921	- 26212	—	- 15	- 16111	- 9773
1922	- 9864	—	+ 3	- 10711	- 2673
1923	- 10	—	- 5	—	—
1924	- 40	—	- 9	- 11	- 3
1925	—	—	—	—	—

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[Continued]

## Sources —

*Netherlands* 1910-1922—League of Nations Balance of Payments Vol II page 190  
1923-1924—United States Director of the Mint

*Portugal* 1910-1915—League of Nations Balance of Payments Vol II page 2-3 (also year 1919)

*China* 1910-1922—League of Nations Balance of Payments Vol II page 316  
1923-1924—United States Director of the Mint

*Australia* 1910-1922—League of Nations Balance of Payments Vol II  
1924—United States Director of the Mint

*New Zealand* 1910-1922—League of Nations Balance of Payments Vol II  
1924—United States Director of the Mint

## Net Imports and Exports of Gold for Various Countries

(In thousands of dollars)

Net Imports (+) Net Exports (—)

Year	Brazil	Chile	Egypt	South Africa	Argentina
1910	+34,971	—	+29,085	—	+34,113
1911	+26,410	—	751	—	+9,412
1912	+17,120	—	+19,016	-183,710	+34,243
1913	-23,486	—	7,491	-178,975	+3,437
1914	-30,134	12	-24,280	-96,512	-12,866
1915	-25,009	+320	-3,939	-73,466	+4,047
1916	—	706	206	-865	-190,426
1917	-156	+5,909	306	-284,617	+25,412
1918	—	+14,914	158	-163,461	+17,162
1919	+525	+6,058	138	-292,511	+31,167
1920	+513	+5,236	+4,612	-155,918	+138,176
1921	+29	+4,720	64	-165,719	+51
1922	—	—	+549	-142,472	+9
1923					
1924					
1925					
1926					

## Sources —

*Brazil* 1910-1921—League of Nations Balance of Payments Vol II

*Chile* 1913-1921—League of Nations Balance of Payments Vol II

*Egypt* 1910-1922—League of Nations Balance of Payments Vol II

*South Africa* 1912-1922—League of Nations Balance of Payments Vol II

*Argentina* 1910-1922—League of Nations Balance of Payments Vol II

## Net Imports and Exports of Gold for Various Countries

(In millions of dollars)

Net Import (+) Net Export (—)

Year	Belgium	Spain	Sweden
1900	+0.6	—0.1	—
1901	+0.8	—0.001	—
1902	+0.2	—0.1	—
1903	+1.0	+0.01	—
1904	+0.8	+0.07	—
1905	+0.6	+0.1	—
1906	-11.0	+0.33	—
1907	+0.4	+0.09	—
1908	—	—0.5	—
1909	+0.6	—0.08	—

## Net Imports and Exports of Gold for Various Countries—(continued)

Year	Belgium	Spain	Sweden
1910	+1.5	+0.01	—
1911	+11.0	—0.01	+1
1912	+4.6	+0.2	+2
1913	+7.9	—0.1	+3
1914	+3.1	+4.9	+2
1915	—	+42.4	+13
1916	—	+68.6	+5
1917	—	+114.0	+20
1918	—	+6.5	+9
1919	+0.4	+35.4	—
1920	+0.4	+0.5	+57
1921	+0.2	—0.9	—
1922	+1.0	+0.5	—9
1923	+0.8	+0.003	—
1924	—	—	—
1925	—	—	—

## Sources —

*Belgium* 1900-1923—European Currency and Finance Serial 9 p 303

*Spain* 1900-1923—European Currency and Finance Serial 9 p 376

*Sweden* 1911-1923—European Currency and Finance Serial 9 p 39

(i) The data for gold consumption indicate that for the three years past practically all the world's gold production has been absorbed by the industrial arts and by India and the amounts available for monetary use have been very small. It may be presumed that industrial arts will continue to absorb from 100 to 150 million dollars of gold each year. The principal unknown factors in gold consumption are (1) the consumption of India for non-monetary purposes etc. and (2) the demands for monetary gold by various countries of the world which are returning to monetary stability.

(ii) It seems reasonable to believe that if the present proposal were adopted her consumption of gold for non-monetary uses would be increased rather than diminished because of the greater recognition of the value of gold and silver imports might well be replaced by gold as silver lost some of its value.

## Table No 3

## Consumption of the World's Gold Supply

(In Millions of Dollars)

Period	World Production	Industrial Arts	India*	China and Egypt	Available for Monetary Use	Stocks of Gold at end of Period.
--------	------------------	-----------------	--------	-----------------	----------------------------	----------------------------------

(Yearly Average of 5-year periods)

1835-39	13.6	11.6	2.0	—	—	954
1840-44	13.4	12.6	2.0	—	—	978
1845-49	37.0	14.6	4.8	—	17.6	1064
1850-54	114.8	15.6	4.8	—	94.4	1538
1855-59	134.4	20.4	15.6	—	98.4	2,030
1860-64	121.6	30.2	34.0	—	57.4	2,317
1865-69	130.4	41.8	23.4	—	65.2	2,643
1870-74	116.8	56.4	10.8	—	49.6	2,891
1875-79	103.6	57.4	3.0	4.8	43.8	3,110
1880-84	101.6	61.6	18.6	8.8	22.6	3,323
1885-89	111.0	48.6	10.8	4.0	47.6	3,461
1890-94	147.0	50.6	4.0	4.0	88.4	3,503
1895-99	216.2	53.2	23.4	7.8	151.8	4,662
1900-04	298.0	76.9	31.2	16.6	173.4	5,529
1905-09	419.4	97.4	48.6	12.6	265.4	6,836
1910-14	427.4	117.8	93.4	6.8	230.4	8,053

\* Fiscal year.

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[Continued]

TABLE No 3—(continued)  
Consumption of the World's Gold Supply—  
(continued)

Period	World Production	In Industrial Arts	In Finance	China and Japan	Available for Monetary Use	Stocks of Monetary Gold at End of each Period
(Annual Figures)						
1915	465	83	8	—	386	8 439
1916	451	88	25	13	330	8 763
1917	420	78	97	13	237	1001
1918	385	83	0 5	2	299	9300
1919	351	112	144	56	53	9353
1920	336	107	17	—19	232	9585
1921	331	58	4	—11	279	9864
1922	319	73	199	5	104	9368
1923	368	157	98	—5	122	10690
1924	384	141	254	—8	—1	10982
1925	396	—	133	—	—	—
(Lat)						

\* Fiscal years

(17) The other factor of importance in considering gold consumption of the future and the effects of changes in the gold market upon prices, wages and the cost of living is the demand for gold for monetary purposes by various countries of the world. The familiar facts about the changes which have taken place in the gold reserves of the banks of issue of various countries are summarized in the following table as far as figures are available. The table indicates that the present gold reserves are more than 3½ billion dollars larger than they were before the War. An analysis of the table shows however that 2½ billion of the increase is in the stock of gold in the United States. The increase moreover is rather misleading in that it does not represent a genuine increase in the amount of gold available for monetary use but rather a concentration of gold in banks of issue and its removal from the vaults of commercial banks from hand to hand use and from stores held by the population.

TABLE No 4  
Monetary Gold Stocks of Various Countries 1913  
and 1925

Country	1913	1925
Austro-Hungary	251	—
Austria	—	2
Hungary	—	10
Czecho-Slovakia	—	77
Italy	258	219
Roumania	29	27
Jugo-Slavia	11	15
Poland	—	26
Belgium	48	53
Bulgaria	11	8
Denmark	20	55
Estonia	—	1
Finland	7	8
France	679	711
Germany	296	304
Greece	5	9
Latvia	—	5
Lithuania	—	3
Netherlands	51	188
Norway	12	39
Portugal	81	93
Russia	672	93
Spain	93	490
Sweden	27	62
Switzerland	33	90
United Kingdom	170	706
Asia		
British India	124	109
Dutch East Indies	11	74
Japan	112	527

TABLE No 4—(continued)  
Monetary Gold Stocks of Various Countries 1913  
and 1925—(continued)

Country	(In Millions of Dollars) 1913	1925
Australia		
Australia	185	234
New Zealand	24	39
Africa		
Egypt	10	15
South Africa	39	49
North America		
Canada	209	309
United States	1 917	4 409
South America		
Argentina	285	446
Bolivia	7	8
Brazil	90	62
Chile	42	49
Colombia	—	10
Ecuador	3	5
Peru	20	22
Uruguay	11	57
Venezuela	2	13
Totals	6 085	9 771

(General Explanations)—For most countries figures are those of central banks. Exceptions noted below.

1925 figures are for end of year or nearest available date.

Austro-Hungary—Upon liquidation of Austro-Hungary Bank the gold stock amounting to \$50 000 000 was divided as follows—

Austria	3 million \$
Hungary	3
Czecho-Slovakia	7
Italy	3
Roumania	7
Jugo-Slavia	5
Poland	5

(Memorandum on Central Banks 1913-1925 page 75)

Italy—Treasury and three banks of issue excluding gold on deposit in England.

France—Excluding gold on deposit in England.

Germany—Holding of Reichsbank and four private banks of issue. Gold abroad included.

Roumania—Gold sent to Russia excluded.

Russia—1913—Reserve of State Bank (Memorandum on Currency and Central Banks 1913-1925 Vol II page 140). 1925—Reserve of Issuing Department of State Bank.

Spain—Gold holdings of Treasury included.

British India—Paper Currency Reserve only.

Australia—Treasury Commonwealth Bank and commercial banks.

New Zealand—Banks of issue.

South Africa—Reserve Bank and other banks.

Canada—Chartered Banks. Central Gold Reserve and Dominion Treasury includes gold held abroad by banks presumably largely in New York. This may involve a small duplication with the stock of gold in the United States.

United States—Stock of gold.

Argentina—Conversion Office Bank of the Nation and other banks.

China and Mexico—No information available.

Central America—Holdings small.



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[Continued]

(v) In considering how far various countries will require gold to strengthen their monetary position, there are two major questions

- (1) The position of the banks of issue
- (2) The use of gold for hand-to-hand circulation

The available facts bearing upon the first question are abstracted for a number of countries in the attached table, showing the ratio of gold reserves to combined deposit and note liabilities of banks of issue. This table indicates that for many of the banks of issue the gold ratio is very close to that

which prevailed prior to the war. But there are a number of countries in the table and also a number for which data are not available, where the present stock of gold is probably inadequate as a monetary reserve even when concentrated in the bank of issue. And if we assume that the increase in the gold reserves since 1913 should be commensurate with the increase in prices and wages, there are many of the countries whose reserves are inadequate. However, in a number of cases balances abroad are at present taking the place of reserves of actual gold and this practice makes for economy in the use of gold.

TABLE No 5

BANKING POSITION OF VARIOUS COUNTRIES  
(1913 end of year figures 1936 latest available date)

Country	Ratio of Gold to Paper Money			Ratio of Cash Reserves to Sight Liabilities of Central Banks			Ratio of Cash to Deposits of Commercial Banks	
	At Par		At Current Exchange	At Par		At Current Exchange	At Par	
	1913	1936	1936	1913	1926	1936	1913	1936
Austria	42.8	2.0	—	50.6	2.0	—	—	—
Belgium	23.3	3.7	17.7	29.9 <sup>(1)</sup>	4.4	17.9	—	—
Bulgaria	20.1	0.8	20.0	23.5	1.1	22.5	—	—
Czechoslovakia	—	—	13.5	—	—	12.7	—	—
Denmark	48.0	32.4	—	51.1	33.8 <sup>(2)</sup>	—	8.0	4.6
Estonia	31.0	25.3 <sup>(2)</sup>	—	25.1	17.0 <sup>(2)</sup>	—	5.3 <sup>(2)</sup>	8.8 <sup>(2)</sup>
France	61.6	7.1	34.4	59.5	7.4	18.3	8.6	12.1
Germany	42.9	27.7	—	57.5	23.2	—	—	—
Great Britain	113.3	32.5	—	51.7	45.1	—	16.4	12.1
Greece	10.7	0.8	12.0	8.7	0.6	8.7	—	—
Hungary	—	24.4	—	—	15.0	—	—	—
Italy	53.6	6.0	25.1	56.4	5.3	23.6	—	7.3
Jago-Slavia	—	1.4	14.7	—	1.5	16.4	—	—
Latvia	21.4 <sup>(1)</sup>	35.8	—	21.0 <sup>(1)</sup>	16.0	—	—	—
Lithuania	—	35.7	—	—	37.3	—	—	—
Netherlands	48.2	56.2	—	50.4	50.8	—	5.9 <sup>(2)</sup>	6.6 <sup>(2)</sup>
Norway	40.7	43.9	—	36.8	31.7	—	3.0	3.4 <sup>(2)</sup>
Poland	—	15.7 <sup>(2)</sup>	—	—	11.0	—	—	13.1
Portugal	9.2	0.5	11.1	—	0.6	12.4	—	—
Romania	34.8	0.7	26.5	30.8	0.7	25.9	—	—
Russia	91.8	21.9	—	—	—	—	—	—
Spain	24.9	58.6	—	61.3 <sup>(2)</sup>	56.0	—	—	—
Sweden	43.6	47.0	—	30.5	23.3 <sup>(1)</sup>	—	3.3	2.3
Switzerland	54.1	56.9	—	54.1 <sup>(2)</sup>	55.5	—	7.1	8.7 <sup>(2)</sup>
Canada	67.1	53.9	—	4.1	5.0	—	11.3	8.7
Japan	52.6	20.8	—	47.7 <sup>(2)</sup>	57.0	—	12.0	13.9 <sup>(2)</sup>
South Africa	—	29.0	—	—	52.4	—	—	—

(1) June 1914

(2) 1924

(3) At new currency par

(4) 1930

(5) 1923

(6) 1929

(7) 1931

(8) If pledged gold is included, 36.3%

(9) November, 1925

(10) 1915

(11) Average figures

(12) 1914

Sources: Bank Statements and League of Nations, Memo. on Central Banks

(vi) Concerning the problem of the use of gold in hand to hand circulation the United States is now practically the only large country where this type of circulation has been resumed since the war and few other countries are in a position to permit such circulation. The question as to whether hand-to-hand circulation of gold will be generally resumed is impossible to answer and speculation on the subject is largely fruitless. In general the world cannot at present afford such circulation.

(vii) The result of this general inspection of the future production and consumption of gold would appear to indicate that if India continues anything like her recent takings of gold the world demand for gold will easily absorb all the available supply and the tendency for commodity prices will be to work lower rather than higher as far as they are influenced by gold unless this influence is offset by economy in the use of that metal. Thus any addi-

tional demand which India might make upon the gold market would be likely to exert a depressing influence upon prices.

15,291 (Mr Warren.) That concludes the memorandum on the subject of gold consumption and production, by Mr Burgess.

15,292 Professor Sprague, perhaps it would be convenient if you could assist us by any general amplification of the memorandum which has just been read which seems to provide in itself the answer to most of the particular questions in the questionaire which has been submitted to you?

15,293 (Dr Sprague.) (i) I think I can take up the questions relating to gold in groups. I wish to indicate what I conceive will be the effects of the establishment of the plan upon the gold standard in different parts of the world and then to consider

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the working of the plan on the supposition that it has been successfully established upon the functioning of the gold standard both in India and elsewhere. The memorandum is designed to show that there is no free gold anywhere in the world outside of the United States and India. In India the gold is apparently inaccessible. There is a large stock, but it is not available for monetary purposes. In other countries, the United States excepted, it would appear that existing stocks of monetary gold are somewhat deficient, that, at least in many of those countries, it will be desirable to increase the stock of gold held in central banks that to withdraw any appreciable amount of the gold now held from those countries would threaten the maintenance of the gold standard, and would render it difficult to restore the gold standard in various countries which contemplate that step in the not distant future.

(ii) In the United States alone, there is a large amount of what may be styled "free gold" and the last question in the questionnaire relating to gold—Question 10—seems to imply that there is a redundancy of gold in the United States. "Redundancy" is a word which does not seem to me to apply to the situation. You have a condition of redundancy when the situation is such that gold is being forced out of the country—spilling over from the reservoir. That is not the case in the United States. There is no evidence of a situation tending to the exportation of gold because of a level of prices not in equilibrium with price levels in other parts of the world. What one may say regarding the gold holdings in the United States is that a considerable amount of gold might be withdrawn without affecting the level of prices without involving a contraction of credit and a decline in prices. Or, to state it in another way, while there is an amount of gold in the United States which would permit a decided upward movement in prices, this gold is not at present involving the country in an upward price movement, and there is little evidence that such an upward movement is to occur. The total amount of free gold in the United States may be estimated pretty closely. The Federal Reserve Banks hold about 21 billion dollars in gold. This gives the reserve banks a reserve ratio of about 70 per cent. The banks could function under existing practice and legislation without difficulty if this gold reserve were, let us say, 50 per cent. There is therefore a possibility of withdrawing from the Federal Reserve Banks, let us say, 800 millions without compelling any credit contraction. There is also nearly one billion dollars of gold in circulation circulating in the form of gold certificates against which an equivalent amount of gold is held in the United States Treasury. These gold certificates as they come into the banks in the ordinary course of business as the certificates become worn, might be replaced in circulation by an equivalent amount of Federal Reserve Notes against which the Federal Reserve Banks would, of course, hold the proper gold reserve—any 40 to 50 per cent, and thus would release something like half a billion of gold. So that in total we have something between 1,200 millions and 1,600 millions of gold which might be withdrawn from the United States without necessitating credit contraction and lower prices. This is the one available supply of gold other than that currently produced to meet increasing world requirements to support the present level of prices. Now, of this total the proposed plan would require something like 500 millions—rather more than a third of this free stock of gold in the United States. Whether the Indian Government were to place loans in the United States or elsewhere, it is from this stock of free gold in the United States that its supplies of gold would be secured. This gold might be secured from the United States directly

without any credit disturbances under certain conditions. Assume that the loan were placed in the New York market and readily taken by investors, the bankers receiving the funds from investors would take the proceeds in the form of gold, exporting that gold to India. The immediate result would, of course, be a reduction in the required reserves of member banks, since the member banks would necessarily withdraw the gold from the Federal Reserve Banks as that is the only available supply of gold. Their reserve requirements being reduced, it would be necessary for the member banks either to contract credit in order to reduce their own deposit liabilities and so their required reserves, or to secure accommodation from the Federal Reserve Banks in order to restore their reserve. As member banks are somewhat unwilling to borrow steadily from the Federal Reserve Banks if the policy of the Reserve Banks were unfavourable to the transaction there would be a combination on the part of member banks of credit contraction and borrowing from Federal Reserve Banks in order to meet this reserve deficiency entailing an uncertain but doubtless considerable amount of credit contraction with advancing leading money rates and with declining price tendencies. On the other hand if the transaction were regarded favourably by the Federal Reserve Banks if it were desired to facilitate the transaction then the Federal Reserve Banks could enter the open market buying bills and United States Government securities to an extent which would fully cover the amount of gold withdrawn, thus restoring the reserves of the member banks. The final outcome under such circumstances would be that the Federal Reserve Banks would hold 500 millions more of earning assets and would hold 500 millions less in gold, and their reserve ratio would be reduced from the present 70 per cent to a figure in the neighbourhood of 60 per cent. They would still be in a very comfortable position. Thus you can see that it is entirely possible to finance this plan in the United States without any difficulty whatever if the plan itself appears to be desirable for all parties concerned.

(iii) On the other hand, if the Indian Government were to float loans in England and on the Continent it would be necessary for the banks in Europe to take measures designed to shift the gold with drawn from England and the Continent to the United States. That would involve credit contraction here and declining prices and this policy it would be necessary to carry very far—so far that it would have most disturbing consequences and presumably would involve such industrial dislocation as might force the European countries off from the gold standard. It would appear to be entirely impracticable under existing circumstances to carry through the drastic credit policies which would be necessary to so influence the exchanges as virtually to compel gold exports from the United States. I have stated this perhaps in somewhat unqualified terms. No doubt a small fraction of the desired amount of gold might be secured on this side but the bulk of the requirement must under existing conditions, be secured directly or indirectly from the United States. I think it is reasonable to say that it is impracticable to secure the gold indirectly, and that the only practical method is to secure it directly and with the co-operation of the Federal Reserve Banks—because clearly it would be impracticable for the bankers to arrange the loan for the Indian Government unless they were quite certain that the withdrawal of the gold would not entail drastic contraction of credit by member banks in order to restore their reserves.

(iv) I have given a figure of free gold in the United States which may appear to you large—perhaps

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larger than has been implied in some of the statements which have been made by previous witnesses but this total of between a billion and a billion and a half of free gold does not appear to me to be large when taken in relation to probable gold requirements throughout the world during the next 10 or 15 years. It may properly be regarded it seems to me, as a sort of cushion which gives a fair degree of assurance that in the years immediately ahead there will be sufficient gold available to maintain prices at something like present gold levels throughout the world. We do not know just how much gold will be required to place the central banks of all the various countries in a satisfactory reserve position. We do not know the amount of gold that may be required in the course of the next 10 or 15 years to take care of increasing requirements as population increases and as production and trade are enlarged but it certainly renders the world a little less dependent upon the vagaries of gold production from year to year that there is this large store of gold in the United States available in one way or another to support prices throughout the world at something like the present levels.

(v) If there were present danger of increasing prices throughout the world owing to a superabundance of gold coming from the mines I should regard this Indian proposal with much more favour but it does not appear to me that the gold position is one which will warrant one in assuming that very stable prices can be maintained if as large a draft is to be made upon gold supplies as seems to be involved in the plan under consideration. Our general impression is that the plan will require rather more than the estimated amount of gold. We are inclined to think that mere rupees may be presented for redemption in the early years than the plan assumes and we are not at all certain that a considerable quantity of notes may not be presented for exchange into rupees the rupees in turn being presented to the Indian Government for conversion. But quite apart from this uncertainty as regards the monetary requirements for gold under the plan in the earlier years, we also feel that there is grave danger that the non-monetary demand for gold in India may be increased through the effect of the plan upon the Indian public. That was a point which was brought out last Friday in our discussion on silver. We feel that the decline in the value of a rupee which we anticipate as a result of the plan will greatly accentuate the tendency to accumulate gold in India at least in the early years of the operation of the plan. Therefore we cannot regard with satisfaction a plan which makes so large and indeterminate a draft upon this store of free gold in the United States. That, I think Mr Chairman, covers what I had in mind to say regarding the establishment of the plan as contrasted with the working of the plan once established.

15294 (Chairman.) Let us pause there for a moment in order to see if any of my colleagues have any point which they would wish to have cleared up in your most helpful treatment of the subject.

15295 (Professor.) Professor Sprague a friend of mine of the admirable exposition which you have given us this morning might put forward this proposition. Would it not pay the United States or for that matter the world to grant the loan required by India for establishing a full gold standard—something in the vicinity of £100,000,000—and thus obviate the certainty of India absorbing the annual amounts of gold which she has been absorbing? It could be argued could it not that if a gold currency and a gold standard were established the habit of hoarding might be weakened because people would say 'The gold is always available for us whenever

we want it. Thus the people might be educated out of the hoarding habit. Would you consider that a sound proposition?—I do not think that that would be a potent influence in lessening that habit. In the first place I would call attention to the fact that silver coin has been used for generations, and silver has also been stored away both in coin and uncoined form. The propensity—to use a word much affected by Adam Smith—to accumulate gold is in part due to the desire to have something of value on hand. It is in part due to the ornamental attractiveness of gold and it is in part due to certain legal arrangements in India relative to the share of property going to the widow. It is also due I take it to a lack of avenues for the investment of savings or to inexperience in putting savings into productive use. I feel that the means of modifying the habit of accumulating precious metals are quite various, and that the introduction of a gold currency is one of the least important of them and that perhaps in the initial stages of the plan it would not be a means of lessening but rather of increasing the tendency to accumulate precious metals—in this case gold. I think it is necessary to establish banking facilities to develop investment facilities and the investment habit if the propensity to store gold is to be weakened but when this has been done then it might be that the introduction of a gold currency would enlighten further that development though I am by no means sure of it. Take the case of France. The habit of investment is pretty general in France, but still, the old habit of storing away money continues in that country. It is a very deep-seated habit and I know of no instance in which it has been suddenly changed.

15296 Another question on the same topic is this. How would the working of the gold standard in a country which has got the hoarding habit differ from the working of the gold standard in a country which has not got any such aversion? Have you any opinion on that?—That is a part of what I intended to take up in the second part of my statement.

15297 (Professor Coyne.) Then I will defer my question until that time.

15298 (Sir Purushottamdas Thakurdas.) You said that the free gold in America at present is required to support gold prices at a certain level. Would it be a correct inference to make that you do not think that the level of prices at present can be looked upon as likely to stand? Do you expect fluctuations and if so downwards only?—I look upon gold as having a very decided influence upon prices if you take long enough periods of time into account. The average level of prices for any period of five years—say a period of five years 20 or 30 years hence—would in my judgment be very greatly influenced by the amount of gold produced during the next 20 or 30 years and to the methods employed in its use as money. I think it is probable that it will be necessary to economise in the use of gold if anything like the present level of prices is to be maintained during the next 25 years. I do not believe it would be possible to introduce a gold currency throughout the world without involving a drastic decline in the level of prices. Just how far it may be possible to go in the introduction of a gold currency throughout the world I am unable to say.

15299 Do I understand then that you fear that the present level of prices may fluctuate downwards only?—I think that with this store of one billion and a half free gold in the United States and with reasonable economy in the use of gold for monetary purposes throughout the world it is reasonable to presume that prices will not fall but if there should be an unexpectedly large increase in the annual output of gold I should think it might prove desirable to

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import a considerable amount of gold into hand-to-hand use in order to maintain in a rough way the present level of prices. We cannot tell in advance what it may be desirable to do over a period of 25 years in order to secure so far as gold is concerned that desideratum—a fairly stable level of prices over the years, but I am convinced that a very large withdrawal of gold at the present time for hand-to-hand use, whether in India or elsewhere would be inadvisable both because it would render difficult the restoration of the gold standard in many countries and because it would probably involve some decline in the level of prices.

15 300 (Mr Feginsall Hunt) You have shown us that there is reason to believe there is about 1 200 million to 1 500 million dollars of what might be called surplus gold in the United States although steps have been taken I understand to prevent that gold from being used for the inflation of prices. That gold is already, in a sense used. Perhaps I might illustrate it by outlining the process by which any given increase of gold coming into the United States affects the price situation. Let us suppose that 100 million dollars additional gold is imported to the United States. That gold will immediately be deposited in various Member Banks. They in turn will redeposit that with the Federal Reserve Banks thus increasing their reserves—the reserves of the Member Banks—by 100 million dollars. They are required to maintain deposit balances at the Reserve Banks equal to roughly 10 per cent of their own deposit liabilities. Thus you might suppose that the Member Banks would be able to lend a thousand million dollars on the basis of the additional 100 million of balances they have created at the Reserve Banks by depositing the 100 millions of gold. They could not increase by a thousand millions because as they increase their loans and chequeing accounts drawn against, additional currency will be required. It is not an automatic situation but the tendency is there, and I think one may say, roughly speaking that any large increase in loans by Banks will involve also an increase in currency and my estimate would be that an additional 100 millions of gold deposited with the Federal Reserve Banks would enable the Member Banks to increase their loans or the volume of credit by perhaps 500 millions. That I would say, is the total initial and direct effect of the importation of 100 millions. But this has left the Federal Reserve Banks unaffected so far. They have received an additional 100 millions, and it would be possible for the Federal Reserve Banks on the basis of that 100 millions of gold to extend credit which in turn would increase the deposit balances of the Member Banks and enable them in turn to enlarge credit. You may say that any 100 millions imported is certain to produce the direct effect of an increase in the loans and investments of the Member Banks. They are competing with each other, and each Member Bank desires to employ its resources fully. But the second stage—the one which the Federal Reserve Banks may make of the 100 millions—as subject to control by the Federal Reserve Banks. They are not required to lend any more because they have received 100 millions of additional gold. They may

simply leave it unused. It will then merely increase the reserve ratio of the Federal Reserve Banks. That is the situation. The last billion of gold received in the United States has had the effect of increasing the loans and investments of the Member Banks but it has not led the Federal Reserve Banks to increase their own earning assets. And I think it is reasonable to say that if the Federal Reserve Banks held at the present moment 300 million 400 million or 500 million of gold less than they now hold the loans of the Federal Reserve Banks would not be appreciably different from what they now are. The gold that I spoke of as free gold has exerted its full influence so far as it has enabled the Member Banks to enlarge their own loans and investments but it has not exerted the influence which it might exert in enabling the Federal Reserve Banks to extend more credit.

15 301 (Mr Strong) Mr Chairman would it be of any interest to the Commission to extend this particular discussion of the policy of the Reserve Banks into the further field of control if you please of the use which the Member Banks themselves may make of the credit created by a gold import? Dr Sprague's discussion stops at the point of the policy of the Member Banks.

15 302 (Chairman) Will you amplify the matter in that respect?—Yes, if agreeable to Dr Sprague. One of the items of policy of the Reserve Banks necessarily must be at times to exercise such an influence upon the credit operations of the Member Banks that this very process of expansion of loans and deposits growing out of the importation of gold may not be a menace to our credit position and result in a rise in prices. The Reserve Banks have always been able to maintain a reasonably satisfactory portfolio in recent times say one third in bills which are taken from the market (the type of bill which is common in the London discount market) roughly one-third in Government securities and the balance fluctuating from one third to a larger amount in discounts of paper which are offered to us for discount by our Member Banks. Now a large movement of gold to the United States creating these reserves can in part be offset by withdrawal of credit from the market by the liquidation of a part of our portfolio. The process takes place ordinarily by the Reserve Banks upon their own initiative selling their Government securities. Sales of securities from portfolio effect a depletion of the reserves of the Member Banks which can only be restored by borrowing from us. As their borrowings increase in order to make good the depletion of their reserves our rate of discount becomes more effective and we get a more complete control of their power of expansion of their loan account. So that, to carry the description which Professor Sprague has made beyond the point of the simple control of our own capacity of expansion we are able to exercise some control over the ability of the Member Banks to expand their loan account by forcing them into debt to the Reserve Bank and making our discount rate an effective check upon that expansion.

15 303 (Dr Sprague) Perhaps at this point it might be of interest to the Commission if a copy of the Weekly Statement of the Reserve Banks were inserted in the records.

15 304 Yes I think it would be so. (Dr Sprague) The following is the statement

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Resources and Liabilities of the Twelve Federal Banks Combined  
(In Thousands of Dollars)

Resources	April 14 1906	April 7 1906	April 15 1905
<b>RESOURCES</b>			
Gold with Federal reserve agents	1,385,430	1,981,331	1,540,000
Gold redemption fund with U.S. Treasury	52,815	47,741	54,419
Gold held exclusively at F.R. notes	1,438,245	1,439,272	1,608,490
Gold settlement fund with F.R. Board	715,880	790,247	637,109
Gold and Gold certificates held by banks	697,663	6,0827	509,055
<b>Total Gold Reserves</b>	<b>2,781,88</b>	<b>2,873,46</b>	<b>2,844,483</b>
Reserves other than gold	157,017	150,305	141,041
<b>Total reserves</b>	<b>2,938,805</b>	<b>2,933,651</b>	<b>2,985,527</b>
Non reserve cash	62,838	61,484	56,630
Bills discounted —			
Sec. by U.S. Government obligations	334,735	290,169	206,133
Other bills discounted	249,549	288,383	189,110
<b>Total bills discounted</b>	<b>577,984</b>	<b>578,552</b>	<b>395,243</b>
Bills bought in open market	274,058	2,9773	274,058
U.S. Government securities —			
Bonds	94,136	74,997	84,897
Treasury notes	143,465	131,897	944,780
Certificates of indebtedness	199,415	199,135	98,156
<b>Total U.S. Government securities</b>	<b>377,016</b>	<b>349,029</b>	<b>357,833</b>
Other securities	5,185	4,185	1,62
Foreign loans on gold	8,00	8,801	1,501
<b>Total bills and securities</b>	<b>1,212,213</b>	<b>1,154,359</b>	<b>1,089,344</b>
Due from foreign banks	643	643	630
Uncollected items	768,948	639,145	786,906
Bank premiums	59,481	59,480	59,441
All other resources	16,901	19,040	21,618
<b>TOTAL RESOURCES</b>	<b>5,088,459</b>	<b>4,969,789</b>	<b>4,949,205</b>
<b>LIABILITIES</b>			
F.R. notes in actual circulation	1,681,096	1,639,878	1,698,090
Deposits —			
Member bank—reserve account	928,929	919,635	2,141,443
Government	43,280	6,580	37,077
Foreign bank	4,576	7,954	5,905
Other deposits	16,914	18,998	23,571
<b>Total deposits</b>	<b>2,317,159</b>	<b>2,978,467</b>	<b>2,207,916</b>
Deferred liability items	703,600	599,779	699,694
Capital paid in	190,893	120,455	114,86
Surplus	220,310	2,0310	217,837
All other liabilities	15,403	14,893	12,052
<b>TOTAL LIABILITIES</b>	<b>5,038,459</b>	<b>4,869,782</b>	<b>4,949,205</b>
Ratio of total resources to deposit and F.R. note liabilities combined	73.0%	74.6%	76.4%
Concurrent liability on bills purchased for foreign correspondence	68,202	68,172	44,897

130. (Sr. Reg. Nat. M. nt) There are just two points I would like to put to you. Dr. Sprague in connection with this surplus of free gold. The first is this: Is it evident to think that it is at vast America something to hold this gold. Dr. Hollander told me the other day that America regarded herself as holding it in trust for the other nations when the world took it. That is, that it was to be the advantage of America to get the other nations to take some of this gold assuming that that gold were applied for strengthening and stabilizing the economies of those other nations. From that point of view it would be an advantage to America would it not and an economy to get rid of some of this surplus gold?—Yes. But the advantage is not very considerable. Assume for example a loan of 100 million dollars at say 6 per cent. that is 30 million a year. Well for a country whose annual income may be estimated at 60 billion of dollars 30

million dollars is not very much. (Mr. Strong) May I make a further addition to Dr. Sprague's answer? I wholly disagree with the theory of the cost to the nation of this gold. One might say that it costs any nation an unnecessary amount of income which might otherwise be obtained in a different way. In other words, if under the conditions which now exist in the world it seems appropriate or necessary—not in a selfish sense but with regard to the interest of monetary restoration in the world—that the United States should run its banking system as now reorganized with a reserve which is say 20 or 25 per cent above what has formerly been regarded as we will say the appropriate point of bank reserve it simply means that we have so many millions of gold in bank reserves in the United States which we have received in exchange for goods sold to the rest of the world which we would prefer as a matter of national

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policy and protection to allow to remain idle as a surplus, or as an excess or as an unduly large reserve, rather than to permit it to earn money when the earning of that income would result in a disastrous inflation. In that sense I do not think we can regard the loss of interest which is a cost—and the loss to our Federal Government of the amount of franchise tax which it would otherwise receive from the Federal Reserve Banks as a national loss. It would possibly be a more proper characterization to regard any such loss of income as an insurance premium which we are quite willing to pay for protection against all the disorders of a highly rapid fluctuation in prices.

15306. The other point which I wanted to put was this: Is there any risk of this surplus gold in America being used for inflationary purposes?—Is there any risk of it being used to raise prices?—Dr Sprague: I should say that perhaps on account of the still vivid recollection of experiences between 1915 and 1921, there is no desire on the part of the people of the United States to go through another period of rapidly rising prices, rather the contrary. The desire to maintain something like the present level of prices in the United States seems to me to be very deep-seated at the present time. I do not in the near future, at all events anticipate any serious danger from the possession in the United States of this free stock of gold. There is the possibility of large credit expansion with consequent rapid rise in prices, but I do not believe that there is any danger of such credit expansion.

15307. (Sir Munerik Dadaibhai) Dr Sprague, I must confess that I am greatly informed this morning by the very candid statement you have made regarding the gold position in America. It will throw considerable light on our impending deliberations. There are certain points, however, in your evidence to-day, as well as in the evidence which Dr Hollander and Mr Strong gave on the last occasion, which require clarification. I will request you therefore kindly to give me a few moments to discuss with you some of the important points which you have raised. I have very carefully followed your evidence and have gone through your written statement and I find some difficulty in exactly gauging the situation. I cannot make up my mind from your statement whether you and your distinguished colleagues object to the adoption of a gold standard for India or object to a gold standard with a gold currency but without objecting to a gold standard.

15308. (Chairman) I see that your examination, Sir Munerik Dadaibhai, is going to take rather a general aspect. Would it perhaps be more convenient to allow Dr Sprague to complete his development of the situation as regards gold before we go into any general matters because so far we have only heard one-half of his development of the situation?

15309. (Sir Munerik Dadaibhai) Just as you like, Sir.

15310. (Chairman) I think, if the examination is going to take rather the general line indicated by your first question it would be better for Dr Sprague to complete his statement. Then, Dr Sprague may I ask you now to continue with the second aspect of the scheme to which you referred in the first part of your analysis namely, how it will work?

15311. (Dr Sprague) (i) Yes. It would probably simplify the examination of the matter if we assumed that the gold has been in some way secured without the involving any credit difficulties in Europe or in the United States. We might make such a supposition for example as that the 103 million pounds had been secured in India itself by the flotation of a loan in India which was absorbed by the Indian people acting under the general patriotic desire to secure the establishment of a gold standard and attracted by the interestment qualities of the loan to be brought out by the Indian Government. It would indeed appear to me to give real ground for believing that

India was ready for the gold standard if such a loan could be successfully floated in India itself, extracting from the stores of gold the desired 103 million pounds. It would indicate that the habit of saving gold was in course of being weakened and that presumably it would be still further weakened with the gold currency. With the loan floated in India such an arrangement would furnish the Treasury with the desired amount of gold, would not threaten the gold standard in other countries, and would, as I say, be an indication that there was little danger to be apprehended of an accentuation of gold hoardings through the operation of the plan.

(ii) India enjoys regularly a favourable balance of merchandise payments—a balance which is subject to a great deal of variation from one year to another, as must almost inevitably be the case with a country the exports of which are mainly agricultural, where the crops vary greatly from year to year, depending as they do in large measure upon the monsoon. I am troubled, when I consider the working of this plan, by the possibility that after a year of particularly large exports there may be a disturbingly large inflow of gold to India. I might illustrate that by citing the case of the United States. The United States was formerly far more largely an agricultural country than it is at present but it is still the case that exports from the United States are subject to very wide variations from year to year. In one year we may have an export surplus of 500 millions or 600 million dollars followed the next year by an export surplus of a billion and a half. Such a range of fluctuation in our export surplus is quite possible. If the United States would only take gold in payment for the excess of exports—if that had been the situation in the United States in former decades in the 80s and the 90s let us say of last century—it would have rendered the working of the gold standard in European countries almost an impossibility. But the inflow of gold was moderated and spread over a longer period through the influence of discount rates and through the movement of securities backwards and forwards. In a period of large exports from the United States American securities held abroad would be in part returned to the United States and taken by American investors, or balances would be left in the European banks and gradually drawn down. I do not understand that there are any such counteracting influences available to the same extent in the relations between India and the rest of the world or that there would be such under this plan. In the past however, there has been something which served the purpose which was served in the United States by the return of securities and the influence exerted by relative discount rates. That substitute in the case of India was silver. In years of prosperity, additional requirements for currency in India were met by the purchase of silver in the markets of the world, and such purchases had no more effect upon the monetary position in European countries than the purchase of an equivalent value of cotton cloth but if you substitute a demand for gold for the former demand for silver you introduce a factor into the working of the gold standard in other countries which may compel erratic and extreme fluctuations in discount rates. A slightly analogous case is furnished by Egypt. Egypt, in the pre-war period was a very disturbing factor in the functioning of the money market because every year, after the cotton harvest in Egypt a large amount of gold was pulled out of the London market since that was virtually the only kind of currency in use in that country. It was a disturbing influence that could be endured because it was relatively small but a similar influence on the larger scale possible in the case of India will introduce a factor into the situation which will render the gold standard far less satisfactory than would otherwise be the case and this must necessarily have reactions upon India. In particular, in the case of an

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agricultural country, it is not desirable that your customers should be subject to the strain involved in protective high discount rates at just the time when they are purchasing your crops.

(iii) My conclusion is not that it is necessary for India to continue exactly the currency arrangements that it maintained in pre-War years, but rather that as a part of my scheme for the establishment of the gold standard it is of the utmost importance that agencies be developed in India which will lessen the strain upon the gold supplies of the rest of the world in years of particularly favourable Indian export business, and I am convinced that the particular agency which is most essential in this connection is banking. If you have a banking system which is well diffused throughout the country, which can influence the situation in India by changes in discount rates and which can facilitate the spreading over a considerable period of time the demands for gold which India may make because of its export trade then you have developed the necessary agency which will permit the establishment and the functioning of the gold standard in India without repercussions which will render the gold standard unsatisfactory everywhere throughout the world. The development of banking in other words, appears to me to be far more essential in India than a gold currency. It would appear to me to be essential as a means of developing the country of weakening the tendency to store away precious metals and as a means of making those temporary adjustments in payments between countries that are essential for the satisfactory working of the exchanges and in general for the functioning of central banks throughout the world.

(iv) I think that this in part at least answers the question which the Chairman suggested might be deferred until I had finished my second statement regarding gold. It is not the gold standard or a gold currency which at the moment seems to me to be the desirable first step in the development of monetary arrangements in India. I believe there are two desirable and practicable developments which can be initiated now and which might in the course of time permit the full adoption of the gold standard without disturbance to the rest of the world. One of these is as I have indicated the further development of banking. The other is a broadening out of the arrangements developed in pre-war years and in recent years for operating the gold exchange standard. The gold exchange standard realised on the whole what seems to me to be the essentials which are secured through the gold standard itself but it was rather narrowly based upon a single market. It does not appear to me to be on the whole desirable that a country so large as India should operate a gold exchange standard through a single market. There is no fundamental difficulty in operating a gold exchange standard on two or even all of the money markets of the world which are upon a solid gold basis. Exchange can be furnished to support the rupee at some given value on New York as well as upon London and other centres. The exchange market can be made to function in other words very much as it would function if India were on a gold standard. If the gold exchange standard were developed in that way Indian credit would become far more familiar than it now is in other markets than London and the flotation of loans at some future time whether for purposes of the carrying out of some monetary plan or for other purposes, would be greatly facilitated. At this point I presume that I am in a sense answering the very last question which appears in the questionnaire with regard to the practice of purchasing bills in India rather than the sale of council drafts in London. As a further development of the gold exchange standard it would seem to me desirable that the business should be transferred from the Government of India to a central bank presumably to a new bank or perhaps

to the Imperial Bank but I see no reason for continuing the practice of handling this kind of business through a direct Government Treasury agency. I should suppose that it would be an essential measure in the development of modern banking arrangements in India that the entire business of furnishing the Government with its balances in London should be handled through banking agencies rather than through the Treasury. In other words, the two matters of broadening out and modifying the gold exchange standard, and the further development of banking agencies, are very closely associated. I think at this point I am ready to answer any further questions.

15312 (Chairman) Thank you very much indeed for your further explanation. It has reached the point when it looks forward from the scheme which has been particularly under consideration to other and alternative schemes as to which you have indicated on a broad basis the direction in which in your opinion, advance might be made. I will ask Sir Maneckji Dadabhai now to resume his questions.

15313 (Sir Maneckji Dadabhai) Dr Sprague the statement which you have just made gives a different aspect to your earlier evidence but I still think it would be better to get to know the exact position in which we stand and I will attempt to clarify it step by step. I understand so far as Dr Hollander's statement and Mr Strong's evidence were concerned that you are generally opposed to a gold standard and gold currency for India—I am opposed, namely, to a gold currency for India and indeed for any other country because I consider that it is a backward step in monetary practice, and I do not believe there is sufficient gold available in the world to provide a gold currency and maintain something like the present level of prices. If we had less gold in the United States we should not have gold certificates in circulation. The people do not particularly desire the gold certificates. It is simply one way of putting aside a portion of this free gold to which I have referred. The gold standard does not seem to me to require a gold currency anywhere in the world. A gold standard in India I contemplate as a desirable outcome of your monetary development but I hesitate to favour it until relations have been developed with some of the other gold-standard countries, and until there has been some further development of banking agencies. In other words I regard it as desirable for the immediate future to return to the gold exchange standard, but to broaden it out and to establish certain banking agencies which are now lacking and to transfer to those agencies the business now handled by the Treasury, and then to establish the gold standard but I am unable to say how long these preliminary steps will take.

15314 When you refer to the relations which should be established between other countries and India I presume you refer to monetary relations. You refer to relations which exist now in Europe and as between America and Europe in the matter of international investments?—Yes.

15315 You admire the development of that relationship?—I am not certain about the development of international investments in India. I rather think the position of India for a long time will be rather similar to that which was occupied by the United States until recent years that is to say that it will be a country in which a considerable amount of foreign capital will be invested but which will not itself be investing very much in foreign countries. But if in the various enterprises in India a portion of the capital is secured in India and a portion of the capital of at least some of them is secured outside then you have securities which may be sold back to India in years of particularly high prosperity in India. That would be a desirable development and would facilitate the functioning of the exchanges to meet varying situations. I do not regard that as a new question. It is simply one of the possibilities of

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meeting fluctuating demands for payment arising out of extreme fluctuations in the exports surplus balance.

15.10 I quite recognise the fact that a considerable amount of new capital will be required for the exploitation or working of the resources of India. That is another point. But I would like to be enlightened by you on the point whether in virtue of India's favourable balance of trade she would be entitled to be paid in gold if she desires doing that you could not expect India to its present state of development to go in for foreign investments as well as other countries. In a doubt we would be entitled to draw gold but the question is whether it would be desirable from the Indian point of view to withdraw the gold. If you have developed certain agencies it will be possible to avoid or defer drawing the gold. On the other hand in the absence of these agencies you will not only be entitled to draw gold but you actually will withdraw it and it makes for a lack of co-operation with the rest of the world which would render the functioning of the gold standard very unsatisfactory and compel protection measures. The gold standard as I see it is rather a delicate device. Upon gold is built up a vast structure of credit. If the foundation upon which this credit rests is subject to great disturbance if even of the unbeginning or a considerable part of it may be removed it threatens the entire structure. Throughout the world we are building up and have built up this structure of credit. I rather on the assumption that slight influences of one sort and another will prevail in each country the basic condition that is gold. This is desirable for all parties. But if you have no agencies in a particular country which is entitled to draw a lot of gold able to exert an influence which will prevail this demand over a considerable period of time and perhaps defer it altogether it may then become necessary for each country to endeavour to acquire a greater base and an excess of gold to meet this contingency.

15.21\* (Mr Strong) May I make one exception to Dr Sprague's remarks? India now draws gold freely from the rest of the world in settlement of favourable balances of merchandise payments. In fact for the last four years I think it is shown that India has taken about all the world's production of gold except such part as has been drawn into use for the arts and industry. The point which I would make about the draft on the world's gold through the establishment of a gold standard and a gold currency in India arises from the differences in habits as well as in the banking structure of India from other banking nations. All the gold that comes to the United States pours into the Reserve Bank. It is mobilised and in such control that in a period of adverse trade or at a time if you please when credit conditions in other parts of the world owing to rise in interest rates and shortage of capital induce a demand upon America for that gold, the recession of gold which we have had in former years on a favourable trade balance may be drawn upon by the rest of the world to fortify their own monetary position. Now the question arises with India. If there is an immediate adoption of a complete gold standard whether a gold circulation can be expected to result in such a mobilisation of the gold which India draws from the rest of the world so that it may be available when the sun does not shine on India and the monsoon is not favourable for making payment to the rest of the world. This seems to me one of the arguments for deferring the full gold standard for I should anticipate that the adoption of the full gold standard and gold circulation in India would result in the creation of a store of gold either in circulation or in store which would not be available to the bank of issue at a time when because of the conditions in India or because of the conditions in the rest of the world it was necessary for the protection of India's gold exchange and monetary position that gold should be exported from India.

15.31\* Let us assume for a moment that India does not adopt a complete gold standard with gold currency but only a local gold standard. Shall we have the sympathy and co-operation of the Reserve Bank of America in increasing our gold reserves for the success of that gold standard and perhaps for an eventual partial gold currency in India?—I think I may answer that in this fashion possibly. We ship a great deal of gold to India now. Any bank balance in the United States is capable of being converted into gold and taken to India. If as a result of our trade with India India gets command of dollars in America and especially if the exchange rate enables her to do so without loss India is in a position to command our gold as freely as any other nation. On the other hand if India approaches the United States with a specific project which would require the employment of American credit to be converted into gold to be taken to India in support of that project then it seems to me desirable in our mutual interest that we should examine the proposals of that plan to see whether not only it is favourable to the Indian project and its accomplishment but also what the reaction will be not only upon the United States but upon the general carrying out of the programme of monetary reconstruction. I had expected later in the hearing to express that matter in a little different way if I might but possibly this is the opportunity for doing it.

15.32\* (Chairman) You had better not anticipate anything which you are going to develop with more deliberation?—I am quite in your hands. It may be well to defer it.

15.33\* Take the points in your own order?—It bears so directly on the questions that I have mentioned it now.

15.34\* (Mr Manekji Bhikhabhai) I quite understand you. I do not expect America to help India to its own detriment and I presume no country is expected to do that. Our experience of the monetary conditions and financial methods of European countries and even of America is the part is sufficient to enable us to understand that that is wholly unprofitable. But you yourself in the course of your evidence stated that there are opportunities for American capital being utilised for the restoration of the world's monetary position and the settlement of its many problems and that America has practically decided to give gold for the reconstruction of Europe. If then the monetary instability of India is a question that is brought before the American nation would the American nation hold back its hand and say that India does not fall within the scope of the plan of reconstruction which you yourself have so vividly laid before this Commission?—

(Dr Sprague) I think that the Indian proposals would stand on the same basis as all the other proposals that are made. Each one would be considered with reference to its feasibility and with reference to its working after the arrangement has been carried through. As I said before it is a *quo pro* question of any such proposal being regarded with favour that it must or should be coupled with some arrangement for the development of a bank of issue which will in one way or another take over the responsibility for the currency so that the flow of gold in and out of India will become subject in large measure to the same influences that affect the flow of gold in and out of the various countries which have operated the gold standard. It is not I wish to emphasise a question of the amount of the gold initially required. It is a question as to whether the proposal itself is going to establish something approaching the same kind of gold standard that we are familiar with in the western countries and the difficulty which we see is in part due to the practice of storing silver and gold and in part due to the absence of the agencies through which these influences are affecting the inflow and outflow of gold between the various countries of western Europe or the western world. (Mr Strong) May I interrupt once more?



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15,322 (Chairman) If you please?—I think, possibly, it would be desirable for me to express the position in a little different terms than have yet been used, because we are here discussing a monetary problem, and it might be enlightening if we express the same problem in the terms of a transaction. If India should approach the American market for a loan and for a large amount of gold for the purpose of a monetary programme, looking at it as a business transaction, I think it would be our duty to consider whether there were advantages or disadvantages for either or both parties. If it were that type of sound economic transaction which had advantages for both parties, I feel very sure that the American bankers would consider it in exactly the same light in which they have considered various other projects that have been submitted since the end of the war, such, for instance, as the German programme. In such event, it would hardly be necessary for us to appear before the Commission to discuss a monetary plan. We would be discussing a business programme for a loan, and I should hope that if the project appeared to be sound that something would result from it. If on the other hand the proposal appeared to be one where there were advantages to India but great disadvantages to the United States, I am sure everyone would understand the reluctance of the American bankers to enter upon a transaction where we would be doing injury to our own interests even though there were advantages to India as a result. In that event I certainly would have felt rather reluctant to appear before this Commission. Now I apprehend, expressing this as a business transaction rather than a monetary inquiry, that the transaction would take neither of the two forms that I have described. In fact, before accepting the invitation of the Commission, we convinced ourselves that such a loan placed in America would do injury to both parties to the transaction, and upon that hypothesis I felt quite willing to appear before the Commission and explain our views. In fact, I think I am justified in expressing it possibly a little more impressively by saying that upon this specific project for India that has been submitted to us, if the progress of monetary reconstruction in Europe were further advanced than it is and more secure than it is, and if there were no considerable silver interests in the United States which would be affected and we were approached with this particular project and asked to make large loans in order to furnish the gold to enable it to be undertaken, I think we would be very reluctant indeed to take the first step in a programme for India which we would regard as fundamentally harmful both for India, for the United States and for Europe.

15,323 That is rather a wide aspect of the situation but I think perhaps it would be better if we developed the matter now by inviting you, if you care to to amplify any of the matters which we have been dealing with. You have re-orientated now, as it were the general aspects of the proposed scheme. I was wondering whether you would care to pick up now any of the other threads which were taken up and unravelled in the course of the evidence in a more general way?—May I express very briefly what I had in mind as the project for the continuance of the hearing on my part?

15,324 If you please?—Professor Sprague has not completed his statement quite. I think it might serve the convenience of the Commission if upon the conclusion of his statement I would possibly amplify in some small measure the answers to the specific questionnaire or answer questions as to any portion of the questionnaire on which the Commission would like to address questions to me and then with much reservation and possibly with the reservation of even eliminating it from the record, if it seemed wise to do so to make a few rather disconnected suggestions about the Indian programme. At the conclusion of what I have to say, I will answer any

questions, especially directed to our own experience in the United States in going through the experience which India is now facing, in thoroughly re-organising our own banking business at home and then conclude my own statement with a general summary of the important points which have been brought out in the course of the hearing.

15,325 (Chairman) If you please. We will just see now if there are any further matters which my colleagues want to elicit on the evidence actually given by Professor Sprague, and not widen the scope until we have had the benefit of hearing Mr Governor Strong a final statement.

15,326 (Sir Manekji Dadabhai) I understand that the position comes to this that you differentiate the case of India from that of the Western Countries of Europe, on the ground that any proposal involving the adoption of a gold standard for India is detrimental to the interests of America as a silver producing country, since India now absorbs a large percentage of America's production of silver year after year?—Quite the contrary (Dr Sprague) No. The silver is only one of the factors in the situation. I should say in the summary we admit that that is detrimental to the United States in so far as it affects silver, and we hold that it is detrimental to India in so far as it affects silver through the depreciation of the value of the uncoined silver held in India. On the gold side we are convinced that the scheme is premature, in the absence of the further development of banking and distancing to the rest of the world on that account coupled with the presumed continuance of the practice of hoarding gold which we believe will be only gradually modified. We hold that the gold standard is now premature, with the expression of the further view that we do not contemplate any time in the future when it will be desirable for India or for any other country to resort to gold currency, because we believe that that will involve a general decline in world prices.

15,327 Then your opinion is that India should at present and for a considerable time to come go in for a gold exchange standard and postpone the adoption of the gold standard?—For an uncertain period of time, perhaps not very long, India should go in for a gold exchange standard broadened out, and a further development of the banking agencies.

15,328 Let me tell you it will be the work of many generations to secure the development of banking in India on the same principle as is done in America or Europe. With that information placed before you, would you still maintain your view?—I should not think that many generations would be required for such developments in banking as would presumably render the working of a gold standard free from extreme disturbance so far as the rest of the world is concerned. I think I can answer that question by taking up my next point, and then bringing it back to the question you have raised. The plan contemplates the elimination of silver in large measure from the circulation of India. It favours gold currency, and also notes, and looks with disfavour upon the continued use of silver. This is indicated by the provision in the plan removing the legal tender quality from the rupee. Now American experience seems to me to furnish in the support for the view, that whatever currency you may have in a country should be retained. If you desire to change in any particular way your currency, the most feasible method is to increase with the passage of the years that particular kind of currency that you want but do not attempt to eliminate the sort of currency which you have. In the United States we have a pleasing and perhaps confusing variety of currency, of which we have samples here which might interest members of the Commission (The witness produced certain notes). I would like to say a few words about each of these types of currency, all of which more or less circulate with the utmost freedom, most people not knowing the differ-

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ence between the various kinds. The most venerable of these various types of money is the United States note familiarly known as the "green back." It was issued during our Civil War, and was inconvertible for a period of 17 years. Specie payments were resumed in 1879, and the United States notes have continued to circulate. The next issue in point of time is the National Bank note every National Bank being authorized to issue National Bank-notes if secured by the deposit with the Government of certain issues of United States bonds. The banks alone are responsible for the redemption of those notes, but arrangements are made for their redemption through the Treasury in Washington. Our third type of paper money is the silver certificate. During the period of 15 years from 1879 on, the Government purchased month by month a certain quantity of silver, under legislation designed to support the value of silver at the traditional ratio with us of 16 to 1. The silver thus purchased was coined into silver dollars, which were of such a size as to be unacceptable to the people in general. For each silver certificate there is lodged in the Treasury the appropriate number of coined silver dollars. At one time, about 1893, our circulation was redundant in the sense that the combined amount of the United States notes, National Bank notes, silver dollars and silver certificates was such that it tended to make the level of prices too high, tending therefore to force out gold, lowering the supply of gold at the base to the apprehension point. After some years of difficulty, however, the situation improved. The country was growing in population and it grew up to its supply of currency. Thereafter, for a considerable number of years, there was no possibility of increasing the aggregate circulating medium, except through an increase in the stock of gold. The Government no longer purchased silver. Greenbacks were at the fixed amount that was outstanding when specie payments were resumed in 1879. The National Bank notes could not be increased appreciably, because there were no available United States bonds possessing the circulation privilege. Consequently, practically all of the increased supply of money in the United States between the years 1896 and 1914 was in gold. We improved the average quality of our circulating medium by increasing the gold percentage of the total. Since the establishment of the Federal Reserve Bank we have had another type of paper money, the Federal Reserve notes issued by the Federal Reserve Banks, against which those banks must hold a gold reserve of 40 per cent. A very large part of the addition to the circulation in hand to hand use of the country that has taken place since 1913 has been in the form of Federal Reserve notes. The amount of gold certificates against gold has not appreciably changed if you take the entire period. It was reduced in the early years of the War, and has since been increased to something like the amount outstanding 10 or 12 years ago. In view of the parallel which this experience furnishes I venture to suggest that in formulating any currency plans for India it would appear to be unnecessary to eliminate all or any considerable part of any kind of circulating medium now in common use. Particularly is this the case if you should decide upon a scheme of banking and monetary improvements which are to be developed gradually, as contrasted with an endeavour to transform the situation overnight, and to establish some quite different monetary plan. I believe it would be quite possible to leave the rupee, merely adopting the policy of making no further increase in the amount of coined rupees. You will find that, with the development of trade, the growth of population and the passage of years, additional circulating medium will be needed, and that can take the form either of additional notes, or, possibly, even of gold in circulation. But that can come about gradually, involving no special change at any particular

moment of time, and it would seem to me greatly to facilitate the development of banking agencies which will influence the monetary position if you start with what you have. I am not sure that this answers the question that you last raised, but I think it has some bearing upon it.

15,329 I quite see your point. I gather from what you say that, in adopting a new system of currency, we should not set aside the traditional form of currency which exists. That is your condition?—Yes, and not withdraw the legal tender quality from it.

15,330 So if we are in a position to devise a system of a gold standard with the maintenance of the silver rupee, we would then have the co-operation of the reserve banks of America in the development of our system?—I hesitate to answer any question like that, because one cannot judge until one has seen the concrete plan and studied it in all its detail, but I should think it would be regarded with a great deal of sympathy.

15,331 (Mr Preston) You stated a little while ago that you thought the best method for us to pursue would be to go back to our old gold exchange standard. Did I understand you correctly in that?

—Yes, broadening it out.

15,332 (Mr Preston) But our gold exchange standard, I am afraid has always been a misnomer. Correctly speaking what we have in India to-day is a simple gold standard, that is, a gold standard without a gold currency. I would just like to exemplify that by reading the Report of the 1893 Conference. "If the Secretary of State for India, who had long been the largest seller of remittances of India, undertook to sell bills of exchange without limit of amount at 1s 4½d per rupee as a maximum rate, but also maintaining (though without formal notification) the practice of not selling below 1s 3½d per rupee."

15,333 (Chairman) What is that document?

15,334 (Mr Preston) This is the official document entitled, "Memorandum giving the history of Indian currency."

15,335 (Chairman) That is a document before the Commission.

15,336 (Mr Preston) Yes. So that we get the upper gold point and also the lower gold point at which rate it would work, taking the parity as 1s 4d. The next point was that the British sovereign and half-sovereign were made legal tender at 15 and 7½ rupees respectively, the rate then established being the equivalent of 1s 4d per rupee. Therefore, what we had was this. We had a top gold point of 1s 4½d, and a bottom gold point for remittances and we also were able to send sovereigns into India and obtain 15 rupees for our sovereigns. The trouble now is we cannot operate it because, as a result of the Bakhington Smith Commission they established a parity of 2s, and as present exchange is round about 1s 6d, it is obvious we are not going to send sovereigns into India and take 10 rupees for the sovereign when we should be getting Rs 13-4. Therefore, you will see that, practically speaking, we were almost a complete simple gold standard, if it had been properly functioning?—I agree there is a very close approach in the gold exchange standard as it is styled, to the gold standard but there is at least this difference in the case of India that your gold exchange standard seems to me to have been operated largely by the Indian Treasury and the India Office, and not by the banks.

15,337 That is the trouble from which we are suffering to-day. That is the exact trouble which a great percentage of the people of India have felt a good deal of difficulty with, and they desire at this particular stage of the financial history of India to have all such further difficulties removed and have it put down in black and white so that there will never be any departure from it in the future. That

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is why several of my colleagues are so persistent in asking you about a simple gold standard for India?—I understand.

15338 (Chairman) That is rather a conclusion than a question. Is it possible to put the matter in the form of a question to assist the witness?

15339 (Mr Preston) I will put it this way. Would that appeal to you as being at this period of India a history of the continuance of an old system, and that it should be put on the Statute book so that there shall be no departure in the future from the present thus laid down?—I suppose that raises the question of the rate.

15340 Let us leave the rate outside?—I don't think that could be put in a Statute, but I may say in amplification of my last answer that I do not see from a very close examination of this plan that the India Office and the India Treasury would be in any way divorced from handling the exchange any more than they are now, as have been during the last 50 years.

15341 (Chairman) I am sure you will tell us at once if the questions are leading you beyond the region in which you want to be?—I presume they are leading me out of my depth. Perhaps that was the Chairman's impression.

15342 (Chairman) No, indeed not—very far from it.

15343 (Mr Preston) I apologise most sincerely, but I assure you it was not with any intent to lead you out of your depth. I am sure I could never do that.

15344 (Sir Reginald Mant) I should like to ask you one question with regard to these notes which you have kindly shown us. Can you tell me whether all of these notes are legally convertible into either gold or silver dollars?—That is rather a long story. Practically there is no difference between the various kinds of money. Legally there are certain differences. For example the United States notes are legal tender, and for their redemption the United States Treasury holds a special gold reserve. They are never presented for redemption from that gold reserve but they are constantly presented for exchange for new notes as they become worn. The legal tender feature is of no importance now. It formerly had this importance that kinds of money that were legal tender could be counted as a part of the required reserves of banks before the reserve system. The other kinds of money could not be counted. The silver certificates are I believe legal tender. They are legally only converted into silver dollars, but it is the policy of the Government to maintain all kinds of currency at parity so that no one worries about that particular detail.

15345 I was not referring to the question whether they are legal tender but the question is whether they are legally convertible into actual coin. For instance the Federal Reserve note says "The United States of America will pay to the bearer on demand 20 dollars." Does that mean that they will pay if he wants it either gold or silver coin in exchange for that note?—That is a special provision which has a curious history. The Federal Reserve notes are redeemable by the Federal Reserve Banks. When that Act was passing through Congress there was acute division of opinion as to whether there should be any liability by the United States Government in connection with those notes. There was strong support for the view that they should be simply regarded as the obligation of the Federal Reserve Banks but there were others who took the view that the issue of currency is in some way a Government function and they desired that those notes should be obligations of the United States Government as well as obligations of the Federal Reserve Banks. Consequently you have that phraseology there but it has no practical significance.

15346 Perhaps I might make the point of my question clear if I explain that it has been suggested to us that the paper currency in India which is at present legally convertible into silver rupees should

no longer be so convertible. I was trying to ascertain whether, although in practice the silver dollar is not demanded for notes, there is a legal obligation on the Federal Reserve Board to give anyone who demands it silver dollars in exchange for paper notes?—They are payable in gold, certainly not payable in silver dollars that is one does not have an option of securing either gold or silver dollars for the Federal Reserve note. The question has not I think presented itself as of any practical importance in our experience. It conceivably might have done so in 1920 if the bullion value of our silver dollars had become appreciably greater than the coin value. In that case conceivably people might have presented their silver certificates to secure silver dollars from the Treasury. Inasmuch as they are really nothing more than warehouse receipts it would have created no inconvenience to the Treasury. It would simply have created a certain vacuum in the circulating medium which would readily have been filled up by the issue of additional Federal Reserve notes. But inasmuch as the quantity of silver certificates is small relative to the aggregate circulation it does not present the sort of problem which I judge you are considering and which becomes of importance owing to the very large amount of notes of one type that are in question and might I suppose be presented for rupees in the event that the metallic or bullion value of the rupee became greater than its coin value.

15347 You said I think that a man who holds a \$100 dollar Federal Reserve note could not claim either silver or gold. Do you mean that he could not claim at his option to be given a particular form of coin but can he demand to be paid in coin of some sort?—Yes.

15348 He can?—Yes.

15349 It is at the option of the Bank to give him gold or silver?—Yes. Practically it is gold since the Reserve Banks are only required to hold gold. Perhaps Governor Strong can state that more certainly, but I do not think you could insist upon redeeming Federal Reserve notes in greenbacks—(Mr Strong) There are two provisions of the law which apply to the question which Sir Reginald Mant asks. In the late '90s Congress passed an Act requiring the Secretary of the Treasury to maintain all forms of money in circulation in the United States at parity—at parity with gold in point of fact. The other provision of the law is contained in the Federal Reserve Act which requires the Federal Reserve Bank to retire their notes on presentation at the Bank either in gold or in legal tender money the legal tender money referred to by the Statute being either United States notes or silver certificates. If they are retired in United States notes the holder can then present them at the Treasury at Washington and get gold in return. If retired in silver certificates these warehouse receipts under the Mandate of Congress to the Secretary of the Treasury in silver dollar is given in exchange but in fact there is a Mandate to give gold for silver certificates if the demand for gold is made. In practice however, since the organisation of the Reserve Banks all forms of money in circulation must be convertible into gold for this reason that the silver certificates and the United States notes—that is the greenbacks—must be received on deposit by the Federal Reserve Banks if tendered and they are actually part of their legal reserves. Now any Bank with a balance at the Federal Reserve Bank can get gold for that bullion. In other words he can convert these various types of currency in common circulation into bullion at the Federal Reserve Bank and then convert that bullion into gold. Now the direction by Congress to the Reserve Banks, or at least the provision in the law requiring the Reserve Banks to redeem in gold or legal tender money is modified by another provision which requires the

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Treasury to redeem the notes only in gold at Washington, and it requires the Federal Reserve Banks to maintain a gold redemption fund in the Treasury of such percentage of the demand as the Secretary of the Treasury may require. So that the combination of the various provisions of the law requiring the maintenance of the parity of all forms of money and requiring the redemption of the various forms of money at different places ultimately gets back to a gold demand in point of fact, and in practice the Reserve Banks give gold on demand to anyone presenting either a cheque on a Bank or any other of the forms of currency in circulation. Does that answer your question?

15350 (Sir Reginald Maug) I think that makes it quite clear.

15351 (Professor Coyne) Will you amplify a little the analysis of the peculiarities of the working of a gold standard in a country that is hoarding? Would it work in a peculiar manner in a gold standard country where you have the existence of boards—because the boards might come out on certain occasions (like periods of speculation or lammies) and so cause rises in prices and also affect the balance of trade—(Dr Sprague) Yes, I have in mind a reverse situation a prosperous condition which I think is more likely to prove the disturbing factor. If I may again illustrate from American experience in periods of prosperity and of large and even abnormal exports of merchandise as gold drifted in it would have an immediate and decided effect upon the banking position making for easy money rates and liberal loans on the part of banks, and a tendency in consequence for prices to advance, thus setting in motion those forces which would tend to restore equilibrium. The functioning of the gold standard in the specific conditions seems to me to presuppose that gold movements will quickly set in motion influences tending to restore an equilibrium between various trading nations, partly through the upward movement of prices and the easy money in a country receiving the gold and through the reverse influences operating in the country shipping gold. It tends to keep all the countries pretty nearly in a balanced situation. If a country that hoards gold has an abnormal export surplus and the gold flows in, the influences are at once set at work in the purchasing countries which lose the gold, tending to high money rates and depressed prices but the opposite influences of an easy money market and rising prices may not be very much felt if prosperous producers in the country in question simply hoard away the gold and it does not enter into banking and business use. Therefore I should expect that the importation of say, 100 millions of dollars to India, the result of an abnormal export surplus, would not set in motion the corrective influences to quite the same extent that they would be set in motion if a similar amount or so amount proportionate to the relative population had been exported, let us say, from Europe to the United States. You do not get that delicate adjustment quite to the same extent if this monetary material may instead of going into banks go into hoards. Now, in the case of a reverse movement I am not at all certain to what extent the gold would flow out of the hoards. I do not think it would flow out as immediately as might be desired. Rather I should fear that it would flow out of the banks making for a strain on such banking machinery as has been developed and only after a period of pretty considerable and severe strain extracting very much of the gold from banks. In both directions you have not got that interrelation of influences which seem to me to be essential for the satisfactory functioning of a world gold-standard mechanism.

15352 (Sir Alexander Murray) Among the notes you have been good enough to show us I see you have a Federal Reserve note. Is not there also a Federal Reserve bank note?—There are no Federal Reserve

bank notes being issued at the present time. Provision was made in the Reserve Act for the issue of Federal Reserve bank notes since it was contemplated that the national bank notes might be gradually retired there were 700 millions of those and it was not quite certain that there would be a sufficient basis in the operation of the Federal Reserve banks for the issue of 700 millions of Federal Reserve notes to fill that vacuum. Consequently there was a provision in the Act enabling the Reserve banks to issue Federal Reserve bank notes under very much the same conditions that the national banks issue their national bank notes. A few millions of those were issued in 1915 and 1916 and a very considerable quantity were issued in 1919 and 1920 when silver certificates were withdrawn from circulation in order to secure silver dollars to be exported to India. The vacuum created by the cancellation of those silver certificates was filled up by the issue of Federal Reserve bank notes against which security was lodged with the Government by the Federal Reserve banks. After the war the Government under the Pittman Act was obliged to repurchase an amount of silver equivalent to the amount that had been exported through the break up of the silver dollar and was further obliged to pay the silver mine people not less than one dollar an ounce for this silver that it was buying to replace the silver dollars and so the silver certificates. As this process was completed the Federal Reserve bank notes were retired, and now there are only a few remaining in circulation.

15353 Only the Federal Reserve note is in circulation now?—Yes.

15354 And the Federal Reserve note is convertible at the bank I understand from Governor Strong either in gold or in legal tender money and at Washington in gold only. I understand that legal tender money includes dollars?—(Mr Strong) It includes United States notes the so-called greenbacks and silver certificates.

15355 And silver dollars?—And silver dollars.

15356 A bank has in its option therefore the right to give in exchange for any of these notes silver dollars?—Yes.

15357 Do the banks generally accept silver dollars in America?—They not only do not care to accept them, but there is no public demand for them. A recent effort was made by the Treasury to economize in the use of small paper money by putting silver dollars in circulation, which was completely unsuccessful. In practice we do not pay silver dollars. In fact, we would find it quite difficult to do so because we have no silver dollars at the bank to pay with, we only have silver certificates.

15358 That is what I wished to know. I could come to your bank with notes, and I could ask from you silver dollars and you really are bound to pay me legal tender money which includes silver dollars?—No, silver certificates.

15359 And silver dollars too?—We can meet our obligation to redeem in "legal tender" money by paying any form of legal tender money.

15360 That is the point I wish to make clear. When I come to your bank to convert my notes you have the option to give me legal tender money which includes silver dollars. I cannot demand from you silver dollars?—No.

15361 If I demand them from you you would not have them to give me?—I would have silver certificates up to a certain reasonable limited supply.

15362 But we are speaking of silver dollars. You would not have silver dollars to give me?—We would give you a receipt for silver dollars which you would then present to the Treasury and get silver dollars.

15363 That is the point I wish to make. When I go to the Federal Reserve Bank to let my note converted and I wish to get silver dollars you give me silver notes, and with those silver notes I go to the Treasury and there I get silver dollars?—Yes and those are legal tender.

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[Continued]

15364 And the Treasury has to give me these silver dollars in exchange for my silver certificates?—Yes

15365 Or green backs as the case may be?—For green backs a different form of payment would be made. The green-backs are now in point of fact redeemable in gold. The only difference is that for each silver certificate there is a specific silver dollar in the Treasury. For redemption of the green backs of which 346 millions are outstanding there is now about 195 000 000 dollars in the Treasury, and if the Treasury were called upon to redeem the green backs they would undoubtedly redeem them in gold if metallic money redemption were required. Then under the law the Treasury could again put these same green backs into circulation or the Treasury could deposit green-backs with us and get gold back from us and restore the funds held in the Treasury for the redemption of the green backs.

15366 (Chairman) We have had an opportunity since last time of reading Professor Hollander's evidence given on the last occasion. I do not know whether there are any questions which anyone may desire to put, because I think you might take this opportunity of asking Professor Hollander to deal with them. Personally I do not think I require any further elucidation of the very lucid statement given by Professor Hollander.

15367 (Professor Coyne) I do not know whether taking these charts of prices which we have been provided with the explanation of them will come from Professor Hollander?

15368 (Chairman) I do not think that Professor Hollander was dealing with those.

15369 (Professor Coyne) There is one point on the Gold chart, Chart 5 on which I should like some information.

15370 (Chairman) Before we come to the chart I should like to see if there is anybody who wishes any further elucidation of Professor Hollander's discourse. I do not think there seems to be anyone who desires any further elucidation. What is your point about the chart?

15371 (Professor Coyne) If you look at the curve of prices of farm products, you will see the prices of those farm products were above general prices up to 1900. Since then they have fallen below the general prices. It has been stated before the Commission that this is a world-wide phenomenon—this peculiar fall in agricultural prices. Was Professor Hollander or any of his colleagues any explanation to offer of the phenomenon that agricultural prices have fallen below the range of general prices in 1900?—(Dr Hollander) It is a matter which is much in dispute. The general opinion, I think, is that farm products have shown less power of recovery from the war supply than other commodities.

15372 The supply was inelastic?—Yes. Moreover the number of farm products is relatively smaller than that of all commodities and naturally there would be less corrective influence owing to the smaller number determining the average.

\* See p. 292 above.

15373 Do you know if that is a phenomenon which is confined to the States or whether it has been observed in other countries after the war?—I mean the fall of agrarian prices since the war?—Well, I do not know as to the experience of other countries after this war, but it is a common consequence that after a period of war farm products seem to suffer in a greater degree from the post-war correction of prices. Naturally as essentials their production has been stimulated during the war, either by bonuses or by price fixing or by the natural advance of prices, and there is a greater inelasticity in the correction of them.

15374 The result being that in the general exchange between the agriculturist as such and the manufacturer as such, the position of the agriculturist has become worse for some years, it has deteriorated for some years?—Do you mean in the United States, or in the world at large?

15375 In the United States, looking at the chart at present?—Yes, but there is a difference of opinion as to that. The condition of the farmer is perhaps more vehemently expressed, and his situation is complicated by matters of indebtedness for land purchase. His complaint perhaps is concentrated owing to the fact that in important areas agriculture is largely a one-product cultivation. In the South it is cotton; in the North West it is wheat and in the Middle West it is corn. So we have less of a balanced condition than in ordinary industry. When we speak of industrial depression we would not use the terms as applied to a particular type of industry, but a bad cotton market means agricultural depression in the South and a low price of corn means distress in the Middle West.

15376 (Chairman) Is there anything which you would like to add to what we have been discussing to-day?—I think not until my associates have completed their testimony. If anything should remain I could add it then.

15377 We shall on a subsequent occasion receive some further assistance in the course of our proceedings from you, Governor Strong?—(Mr Strong) Yes. May I inquire whether it would suit the wishes of the Commission to have my views rather generally than to deal precisely with the questionnaire as it seems to have been covered so completely by the evidence?

15378 I think so. I shall hope that you may be able to amplify any of the matters which seem to you to require amplification or addition and then deal with those further matters to which you referred in the course of your observations to-day?—The amplification which I had in mind had more to do with the relation the operations of the Federal Reserve system bears to some of these particular matters which I thought might be interesting to the Committee.

15379 Quite so. I do not think you need trouble after the very full assistance which we have already received, to go through the detailed questionnaire again?—Quite so.

(The witnesses withdrew.)

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[Continued]

## FIFTIETH DAY.

Tuesday, 11th May, 1926.

## PRESENT

The RIGHT HON. EDWARD HILTON Young PC DSO DCL MP (Chairman)

Sir RAJENDRANATH MOOKERJEE KCIE KCSI  
 Sir NORRIS HASTINGS YEELLS WARREN, KCIE  
 Sir REGINALD MANN, KCI, CSI  
 Sir MANUKH BYRAMJI DADABOY, KCI  
 Sir HENRY STRAKOSCH KRE  
 Sir ALEXANDER ROBERTSON MURRAY, CBE

Sir PERUMOTHUNDAS THAKURDAS CIE, MBE,  
 MLA  
 Professor JAHANGIR COOPERJEE COYAJEE  
 Mr WILLIAM EDWARD PRESTON

Mr G. H. BAXTER } (Secretaries)  
 Mr A. ATANGAR }

Mr BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York), Dr JACOB H. HOLLANDER (Professor of Political Economy, Johns Hopkins University, Baltimore, Maryland), and Dr OLIVER M. W. STRAUSS (Professor of Banking and Finance, Harvard University, Cambridge, Mass.), accompanied by Mr ROBERT B. WARREN (of the Federal Reserve Bank of New York), recalled and further examined.

15350 (Chairman) Governor Strong, we are looking forward to-day to the benefit of your assistance on some of the wider aspects of the scheme, first of all in regard to some which relate more particularly to the gold market. Is this a convenient point at which to resume your consideration of the subject?—(Mr Strong) Yes, Mr Chairman.

15351 (Mr Strong) (i) Reviewing the question raised after yesterday's session it became apparent that there was very little which I might discuss without repetition, and, if agreeable to you, what I shall say to-day will be specifically directed to the question of, and will relate entirely to, the gold position in the United States. The circulation of gold—that is, of gold coin—in the United States is really controlled to-day by considerations of habit and convenience which have not been characteristic of the gold coin circulation in countries which had such a circulation before the war. In England, for instance, the smallest denomination of note issued by the Bank of England was £5, and the intermediate circulation was sovereigns and half-sovereigns. The determination of the relative amount of circulation of these two kinds of money was really fixed automatically by the requirements of the country's trade. If smaller denomination money were required below the £5 Bank Note, it took the form of a low value coin. In the United States we have not had a situation where what I might describe as the saturation point of those two kinds of currency has ever been reached for the reason that with the great variety of paper money in circulation, issued in all denominations, there was no true economic demand for gold coin of, say, \$5, \$10 and \$20 denominations in order to conduct the country's trade. National Bank Notes, for instance, were issued in denominations of \$5, \$10 and \$20, and higher. The same was true of the silver certificates which you saw yesterday, which are issued in \$1, \$5, \$10 and \$20 denominations and higher, and the same in fact was true of the so-called Greenbacks. The situation prior to the war and since the war has really been this—that in order to induce the circulation of gold coin it would be necessary to discontinue the printing of all kinds of paper money of those three denominations and the introduction of a gold coin currency into circulation would have been a cause of great inconvenience and complaint by the public. That may be illustrated by my telling you that the chief paper money circulation in the country consists of \$5 notes of the various kinds which we issue and the next in order are \$10 and \$20. At the Federal Reserve Bank of New York we receive on deposit every day from the

Banks something like 20 million of this paper money, and we pay out in round figures about 20 million dollars of this paper money—a very large part of it consisting of notes of \$5, \$10 and \$20 denomination. We also receive every day, through the rail and by express from out of town Banks in our district on the average about 500 shipments of paper money and we ship out to our Member Banks about 500 shipments of paper money, largely consisting of these denominations. If those shipments and those deposits and withdrawals all had to be made in gold coin, the expense and inconvenience of handling it would be tremendous. So, as I say, the circulation of gold coin in the United States is very largely determined by habit—that is the habit of using paper money—and by convenience in handling a form of money which is very much more economical to transport and carry about than is gold coin. I should like at this point to refer to something which I observed myself when in India in 1920, which may have some bearing. We have a large problem of internal payments to make in the United States between the different districts just as exists in India, and I recall being told when in India, when the rupee Note was gaining its popularity in 1920, that the very large denomination Notes actually brought a premium because of the convenience that they afforded in effecting transfers. There being no demand for gold coin circulation wonder is sometimes expressed at the very large circulation of paper money representing gold coin that is the gold certificates, and I should like to describe the policy which has been applied to that since the outbreak of the war. When the reserves of Member Banks were assembled in the Federal Reserve Banks a large part was paid in in gold—that is, in these gold certificates, and some small amount in gold coin. There was left in circulation however as hand-to-hand money a large amount of gold certificates and there was left in the reserves of non Member Banks (that is, the State Banks which did not join the Federal Reserve system) a considerable further amount. The total of gold certificates in circulation before the war was in round figures about \$900 million other forms of money constituting the rest of the circulating medium. We thought it was wise in order to lay a foundation for possibly extensive operations in financing the war, to assemble as much of this gold as possible in the reserve banks and without describing the details of the operation we issued Federal Reserve Notes in exchange for gold, and thereby further reduced the outstanding amount of gold certificates in circulation and in the hands of banks

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to about \$200 million. That helped to build up the reserves of the Reserve Banks. Then we had this great accession to our gold stock, largely represented by issues of gold certificates by the Treasury. When the war ended and matters returned more nearly to normal, we had to decide upon a policy as to the circulation of this gold, practically all of it at that time being out of circulation and in the reserves of the Reserve Banks in the form of gold certificates. So we have now restored to circulation substantially the total which was in circulation before the war, in fact, the circulation of gold certificates to-day is roughly one billion dollars. I would like to describe the reasons which led us to do so. The first was that the almost complete disappearance of gold certificates—which are readily distinguished from other forms of paper money because they are printed with yellow backs—led us to fear that there might grow up a feeling of discrimination or preference in the minds of the public between the different kinds of money in circulation—an unsatisfactory feeling to develop about the currency. The way to overcome that was to put gold certificates freely into circulation, which was done. That was the first reason. The second reason was the idea conveyed in regard to the very large gold reserves of the Reserve Banks and the very high percentage of reserves at a time when there was prevalent, especially in the agricultural sections, a feeling that possibly it would be a good thing for the country to have some expansion of credit, that in some way it would lift us out of the difficulties of that period. It did not seem well that the Reserve Banks should throw so large a bulk of gold, nor in fact so high a percentage of reserves, and the effect of paying out some 700 million or 800 million of our gold reserve was to reduce it to a less spectacular figure, if you please. The third reason was rather more important than either of the other two. In a country which has, say, a saturation point to the circulation of gold, any movement of gold into the country or out of the country in a well-organised central banking system is instantly reflected in the reserves of the Central Bank. With no point of saturation in the circulation of gold (because of the existence of this large volume of other kinds of money of similar denomination) unless the amount of gold certificates in circulation was carefully fixed at a definite figure and maintained there, we would have two fluctuating funds of gold—one, the amount in circulation and the other in the reserves of the Reserve Banks. The reserve percentage of the Reserve Banks would therefore be no indication of the gold movement whatever. In fact, it might be possible, by a careful adjustment of payments by the Reserve Banks in meeting the demands of the circulation to maintain the percentage of the Reserve Bank at almost an absolutely fixed figure and have the fluctuation in the country's gold supply occur entirely in the gold certificates in circulation. So as a matter of policy we determined to endeavour to fix the amount in circulation at a definite non-fluctuating sum and as gold imports or gold exports occurred, they would show at once in the reserves of the Reserve Bank. The fourth reason was of this character. A long continued period of a high reserve in the Federal Reserve Banks, say, at 80 or even 85 per cent might induce a state of mind in the public which I might describe as raising the apprehension point in other words a sudden loss of gold by export which would reduce the reserves of the Reserve Banks by say 20 per cent—from 80 per cent to 60 per cent—might bring about the same reaction in the minds of the public as would a sudden reduction of reserves from 65 per cent to 45 per cent. Recognising that the percentage of reserves of the Reserve Banks as I described the other day were necessarily large and possibly needly large we wished to be in a position first that we were not operating on an unduly large reserve and second that if any sudden decline in the reserve did occur it could be compensated by gradually taking the gold out of circulation. It is a rather

unlikely occurrence. It is hardly possible to conceive of a loss of gold which would reduce the reserves of the Reserve Banks suddenly by as much as 20 per cent, but with this great mass of gold in the hands of the Reserve Banks and with a large mass in circulation it certainly would appear to be a more conservative policy to have this compensating fund in circulation upon which we could draw in case of need to build up our reserve and soften the shock of a very large loss of gold. That, if you please, explains somewhat the policy of the Reserve Banks in maintaining a large circulation of gold certificates and a somewhat lower percentage of reserve than they otherwise might have done.

(ii) Now as to the question of the redundancy of this gold. It is a fact that, notwithstanding the very large increase in the amount of gold held in the country, there has been no considerable increase in the total percentage of monetary gold to the total deposit liabilities of all the commercial banks of the country. The expansion of credit has kept pace with the accession to our gold stock. The reason why it is possible to say that we now have an amount of free gold (not redundant) it is all functioning in our system, but which, under favourable circumstances, might be spared from our system—is due to the fact that the reserves of the banking system prior to the organisation of the Federal Reserve System were scattered among some 2,000 or 30,000 different banks while now they are largely concentrated in the Reserve Banks. There was no economy in the use of reserve money, and the organisation of the Federal Reserve Banks in assembling it in one great body of course creates a very much more secure banking position than existed under the system of isolated separate reserves by each separate commercial bank, State and National. The reserve position was somewhat weakened before the war by the fact that many banks carried a portion of their reserves as deposit with other commercial banks so that there was a pyramid of deposit liabilities on the individual reserves of the different commercial banks. In fact when the Reserve Act was passed it was felt that the economy in the use of gold brought about by its organisation in the hands of the Reserve Banks justified a very considerable lowering of the amount of reserves required to be kept by the State and National Banks which became members of the Federal Reserve System. That is the National Banks, all of which are members and the State Banks some of which became members.

(iii) A question appeared in the Questionnaire relating to the probable rate of increase in the demand for monetary gold with the growth of business and bank deposit liabilities. I do not think it is possible to apply any rule by mathematical computation. One computation has been made I believe which indicates that the probable increased demand will be about 2½ per cent. To show how illusive any such calculation is liable to be one should consider the enormous changes that have taken place in the reserve position in the United States. Prior to the adoption of the Federal Reserve Act commercial banks in the cities of New York, Chicago and St. Louis (the largest banking centres in the country) were required to keep 20 per cent reserve in cash in their own vaults. Banks in New York and Chicago are now required to keep but 13 per cent on deposit in the Federal Reserve Banks and those in St. Louis but 10 per cent. That is the highest reserve requirement of any member Bank. The banks located in some 75 or 100 reserve cities so called (that is the next smaller cities) are required to keep but 10 per cent reserve on deposit in the Reserve Banks as against 25 per cent before the Reserve Act was adopted of which 25 per cent 15 per cent might be on deposit with other banks. The banks in all other towns and cities are now required to keep but 7 per cent as against 15 per cent before the Reserve Act was adopted. Such a reduction in reserve requirements would serve to offset an annual

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increased demand for reserved money for one banking system for a considerable period. This is true also as to other possible developments. I might illustrate it by referring to our present practice at home in dealing with the collection of cheques. A suit was recently brought by a bank—a group of banks—to require the Federal Reserve Banks to give immediate credit upon cheques deposited with the Reserve Bank by Member Banks. Had that suit been successful it would have had the effect of adding about \$500 million to the reserves of our Member Banks without any change in the quantity of gold in the country at all. That again would have been equivalent to a number of years additional reserve requirements for gold by the banking system. Perhaps some questions might be asked now with regard to this particular matter.

15382 (Mr Leggett Macf.) Mr Strong, you told us that the Federal Reserve Banks withdrew a large number of gold certificates. Will you tell us how the banks can get them in and give them out at will? Does it not depend on whether the public want gold certificates or not?—You mean the Federal Reserve Banks?

15383 Yes. How do they increase or decrease the circulation of gold certificates?—If any peculiar value, sentimental or otherwise attached in the minds of the people to a gold certificate as distinguished from any other type of paper money, then some difficulty might be encountered. People would sort them out and keep the gold certificates and pay out other kinds of money. That was one of the reasons—to prevent any such development—which led us to put them freely into circulation. Now people do not distinguish and there is no habit of sorting. So that as money becomes either redundant—more than is required for the circulation—or as it wearies out, it is returned to the Federal Reserve Banks and there we have the task of sorting out that which is unfit for further circulation and sorting it both as to kinds and as to denominations. Then if we simply discontinue paying out the gold certificates and satisfy the demand for fresh money with other forms of paper money, we very rapidly accumulate the gold in the Reserve Banks again. It is an automatic operation.

15384 You have answered my question really by saying that the people are indifferent; they do not mind which sort of notes they hold?—They are quite indifferent.

15385 (Mr Henry Stridberg.) What has been puzzling a good many of us is the differentiation in requirements for depositing a certain percentage of the liabilities of the commercial banks with the reserve bank in the various reserve towns. You have mentioned that in the great centres 10 per cent of the demand liabilities have to be deposited by statute in the Federal Reserve Bank while in the minor centres a lower percentage has to be deposited. What is exactly the reason of that differentiation?—That question fits exactly into some of my subsequent remarks and it may be that if it is introduced there it will complete the statement on that point better than if it is introduced here. Would it be satisfactory to defer it until then?

15386 Yes, I will ask you the question at that point. Then you referred to the reduced reserve needs since the introduction of the Federal Reserve system and you mentioned that before the Federal Reserve system was introduced the National Banks had to hold 25 per cent of their liabilities in reserve?—In the three central reserve cities of Chicago, New York and St. Louis.

15387 With this smaller ratio of reserves do you regard the situation as satisfactory as it was before the introduction of the Federal Reserve system?—Yes, I regard it quite as satisfactory and even more so for the reason first that the reserve is mobilised with the reserve banks and second because the reserve banks are now capable of meeting a sudden increased demand for currency by issue of Federal

Reserve notes against discounts of Member Banks. The difficulty prior to the establishment of the Federal Reserve system was that without any capacity for expansion of the note issue the only way a Member Bank could meet a demand was by paying out its reserve and when anything like panicky conditions arose such as occurred in 1903 and 1907 the banks hoarded their reserves; they would not pay them out. On both of those occasions we had a premium on currency. Now that we have a central reserve fund and a capacity to meet any demand for currency that situation does not arise. It certainly would have arisen during the war if there had been no Federal Reserve system with capacity to meet almost unlimited demand.

15388 That you would say is one of the great benefits of a central banking system in a country?—I should say it is essential to any modern banking system.

15389 To have the banking and currency reserves centralised within one institution?—Yes.

15390 (Mr Manly Dindaboy.) I want to ask you one or two questions by way of information. I understand the United States started on a gold standard in 1897?—I am not sure of the year but I think the Act to which reference was made the other day requiring the Secretary of the Treasury to maintain all forms of money in circulation at par was passed in 1908 and I think it may be generally stated overlooking the peculiarities of our system as to details that the gold standard became firmly established with the adoption of that Act.

15391 When you started a gold standard did you have some form of gold currency at the initial stage?—We had a circulation of gold on the Pacific Coast only of any consequence. All the other gold circulation in the country was in the form of gold certificates.

15392 How do you distinguish the term "saturation point from 'redundancy'?—I would like to adopt Dr Sprague's definition which he made to my entire satisfaction the other day. I should say that free gold is as I have described expressed by an unduly large reserve percentage in the central bank and that a redundancy is an excess over the requirements of the nation for conducting a given amount of business at a given price level.

15393 (Chairman.) Now Mr Governor I understand you are willing to cast the net a little wider in your discussion of the matter?—Mr Chairman if I may do so it may be of value at this point in the record for me to make a summary of the various points to which we have given some emphasis in the statements made in regard to the plan submitted and the questions raised by the questionnaire. After that I will proceed to a discussion of other matters.

15394 (Chairman.) If you please?

15395 (Mr Strong.) (i) I have been asked to elaborate a little one part of my statement in regard to gold coin circulation. I referred to the fact that gold coin had circulated on the Pacific Coast as distinguished from gold certificates. This was the outgrowth of the gold discoveries on the Pacific Coast in about 1849. The immense unoccupied territory between the Eastern sources of supply of gold coin and paper money made it of course difficult to introduce a circulating medium in a part of the country which was growing very rapidly under the impulse of the gold discoveries and in the early days of the mining camp period of the Far West the currency was in the form of small nuggets of gold taken from placer mines. Every store had scales where the gold was weighed and people actually made their payments with the gold as it was taken from the placers. The next development was a rather irregular coinage of this gold by private persons on the Pacific Coast. Some of the coins although rather crude had quite a wide circulation. Some of them were of good workmanship, and are still treasured as souvenirs of the early days of the development of the West. This habit of gold coin circulation grew and later a Mint was established in Denver and gold coin came to be



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put quite largely into circulation. The habit of the use of gold coin on the Pacific Coast did not finally disappear until the Federal Reserve Bank in San Francisco furnished adequate supplies of gold certificates and other forms of money. Then gold coin was largely withdrawn from circulation and paper money substituted, although it was a task of some difficulty, because that coin had been in circulation for so many years that almost all of it was abraded below the limit of tolerance. The holders of the coins did not like to turn them in and assume their abridgement loss so the Federal Reserve Bank of San Francisco assumed that loss. The gold coin came in, and is now practically out of circulation even in California.

(ii) You have now heard a discussion of the gold standard plan and our replies to the specific questions prepared as a guide in the expression of our views. As the hearings have occupied some days, we shall now submit a résumé of those points to which in our opinion, particular weight may be given in considering the evidence submitted.

(iii) First, as to Silver, (a) the consequence of the plan will be to direct a blow at the price of silver, the force of which cannot be forecast, but which can certainly be estimated as greater than suggested by the price of 213 per ounce. (b) The effects upon the Indian people who have accumulated a great part of their savings in a vast store of silver bullion cannot be otherwise than unfortunate. We should expect great dissatisfaction among the Indian people because of direct loss through positive action of Government imposed upon the holders of a store of value the use of which is so intimately wrapped up in the social and ceremonial customs of a large part of the population. This feeling might well be the strongest amongst those whose savings were the fruits of the greatest self-denial. (c) The proposal to avert the loss by an import duty imposed in an effort to maintain the domestic price irrespective of the world price of silver, would in our opinion be likely to fail more probably at those times when, because of adverse trade or poor crops, an unusual amount of silver was pressed for sale. Further, even if the plan were successful in maintaining the domestic price of silver, it would seem to be equally open to objection if it depended for its success upon disposing of the silver reserve to the Indian people at an artificial price maintained by an import duty. (d) In general it is our conviction that any plan for monetary and currency reform in India should as one of its objects seek to protect the value of these savings in unvoiced silver, rather than to threaten or risk their depreciation. (e) The plan for the disposal of the silver, in addition to contemplating its sale for the purpose of purchasing gold, proposes reducing the legal tender quality of all the coined rupees remaining in circulation to payments not exceeding, say, 50 rupees. We question the advisability of attempting any limitation in the usefulness of currency of the existing stock of a type of money which has been in common circulation among the Indian people for generations. (f) The plan of necessity will require either immediately or ultimately by one method or another a large draft upon the gold reserves of the United States. We do not believe that it can be assumed that the requisite credits can be obtained readily if in fact at all in view of the disastrous effects which might ensue to an important American industry. Indeed it would appear that in certain respects the unfortunate consequences of the plan would be shared alike in India and in the United States as it would cause a great depreciation in the value of the savings of the Indian people and a like depression in the value of investments in American industries. It happens that the present value of the store of silver estimated to be in the hands of the Indian people at least equals and probably exceeds the amount invested in silver producing industry in America.

(iv) As to Gold (a) we consider it possible indeed likely that the ultimate total amount of gold

required has been underestimated, and that the immediate demand for gold for the operation of the plan will be greater in the first stages than that for which provision is made. (b) If this is true the total amount of credit ultimately required will be larger than anticipated, and further the security of the plan will necessitate an increase in the estimates of the sums for which contracts must be made at its inception, this being due to (1) an overestimate of the amount of funds to be realized on the sale of silver (2) an underestimate of the amount of rupees liable to be presented for conversion. (c) The plan suggests possible loss of confidence by the Indian people in the value of silver as a store of savings, and would to that degree induce an enlarged absorption of gold for non-monetary purposes and again augment the gold requirements of the plan with a consequent increase in the demands upon the gold reserves of the rest of the world. (d) The strictly fiscal effects of the plan in India we shall not attempt to estimate, but merely point out generally that the cost would be much greater than calculated especially at the onset and over a longer period if the full impact of the demand for gold was felt at the inauguration of the plan.

(e) As to External Effects involved in setting up the plan (a) gold must be drawn either directly or indirectly from the United States. (b) Indirect withdrawal would follow upon the flotation of an Indian loan in Europe. The effort to protect European reserves would involve higher discount rates and drastic credit contractions, probably of such severity as to occasion a decline in prices. This train of events might threaten the maintenance of the gold standard in such European countries as have already adopted it, and defer its extension to other European countries. (c) Direct withdrawal of gold from the United States would create no credit difficulties, if the Federal Reserve banks were willing to enlarge open market investments to the full amount of the gold withdrawn—but such co-operation would be impracticable owing (1) to the damage which the plan would inflict upon American silver mines and the lead and copper mines from which silver is a joint product (2) To the present unfamiliarity of the American market with the financial position of the Indian government (3) and more important, on account of the fundamental defects in the plan itself, described in the testimony and here summarized.

(v) As to Monetary Reconstruction.—Through gradual stages monetary reconstruction throughout the world is being accomplished partly through co-operative effort and largely by the employment of American credit. It would seem to be essential to the success of any plan attempted by any country, that it should be brought into harmony with these efforts and we believe that it is in the interest of India herself that she should join as a partner in co-operation for the success of this movement.

(vi) As to Banking.—While somewhat outside the scope of the Questionnaire, we feel justified in pointing out and indeed emphasizing, that the attempt to introduce a full gold standard into India in advance of previous development of the banking machinery necessary for its operation would increase the successful working of the standard in India. The internal advantages of the gold standard cannot be permanently enjoyed in India until the Indian people possess a banking organization capable of discharging the international responsibilities implicit in the acceptance of that standard. This we believe would be the case even if the initial obstacles to its establishment could be overcome. We are also of opinion that the resulting situation might render the functioning of the gold standard in other countries extremely unsatisfactory and consequently the functioning of the gold standard in India itself of doubtful value if not of positive disadvantage to the economic well-being of the Indian people.

1520 (Chairman) I now resume in a more valuable drawing together of the principal points which

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have emerged after a long and very full discussion of this particular matter. Realizing that at this point we have completed the assistance which you have given us on the scheme for a gold standard and a gold currency as it has been submitted to you, this is the moment to ask you any questions which are still outstanding upon that scheme and which perhaps you will allow us to submit for your consideration.

15,397 (Sir Parshotamdas Thakurdas) Do the remarks which you have made apply to gold standard without gold currency or to gold standard with gold currency?—I should say they apply specifically to the plan as submitted, which contemplated ultimately a gold currency.

15,398 Would they apply at all to gold standard without gold currency immediately?—They would need to be modified.

15,399 (Chairman) If we are going into that in detail we should perhaps have to see which remarks apply to each of those headings, and go into it rather more in detail?—I thought it was best to direct the summary to the specific plan and questionnaire, although it may not be quite applicable to the state of mind which may now exist amongst the members of the Commission—of which state I am not advised. Perhaps the subsequent discussion which we shall have may bring that out.

15,400 (Chairman) The summary which you have just given will have a most relevant and comprehensive bearing on one of the most important matters which is before us.

15,401 (Sir Manekji Dadabhai) You referred to the social injustice which would be caused to the people of India by their stores of value—silver—depreciating. Suppose that contingency took place could not the injustice be mitigated by the purchase of silver at gold price?—I would rather a scheme that the easier way out would be by pursuing somewhat the course which has been pursued in the United States in regard to our silver circulation and other circulation of what I might describe as fiat money. We have grown up to it and absorbed it in our circulation without any loss to the population which otherwise might have occurred. We have in circulation to-day in the United States over 700 million dollars of national bank notes which are secured by Government Bonds. We have in circulation about 600 million dollars of silver certificates with silver dollars in store behind them where the silver is worth but a fraction of the legal tender value of the silver certificates and we also have in circulation 316 million dollars of green backs which were originally issued without any value behind them except the promise of the Government, the commerce and business and population of the country have grown up to a point where that is retained in circulation without imposing any depreciation loss upon the people of the country.

15,402 Would you care to give us a little more information about the import duty on silver which you mentioned? You stated that it would have the effect of raising materially the domestic price of silver. Your remarks do not apply of course if the Government of India want to impose an import duty on silver for revenue purposes?—As to the first part of your question I am afraid I will need to modify that. The effort to raise the domestic price by the imposition of an import duty I personally believe would fail. If it did fail in maintaining the domestic price it would fail at a time of some business adversity when a surplus of silver was offered for sale, and when in fact the hardship upon the Indian people would be the gravest. But assuming for the purpose of argument that it was successful in maintaining the domestic price above the foreign price, it would seem then to put the Government of India in a position of ensuring a price for silver almost for all time because at the completion of this plan they would have sold nearly 700 million ounces of silver to the Indian people possibly at a price that was double the world price. Whatever might be the purpose of the imposition of a tariff on maintaining

the domestic price, so long as the consequence is as I have described, the imposition of the import duty under any guise of purpose would hardly be justified.

15,403 In case the import duty fails there is still another weapon in the hands of Government, is there not—complete prohibition of the import of silver, which would serve the purpose desired would it not by raising the price of silver in India?—I would suppose that for a period at least—that is for 10 or 12 years or longer—there would be competition for the sale of silver at times between the Government and the Indian people who were forced to sell their silver by adversity and that the consequence even of a complete prohibition of the import of silver might not protect the Indian people against a sharp decline in the value of silver. We have had some experience in the United States in an attempt to peg the price of silver by unlimited and then by limited purchases of silver, which proved to be disastrous in the end, as you know.

15,404 Of the two alternatives—the imposition of an import duty and the prohibition of import—which would the United States prefer?—I do not know that it would make very much difference to us which method was employed for that purpose. The point of our remarks on the subject of the import duty has been rather to emphasize the possibility of a great injustice to the Indian people.

15,405 In case it is decided to impose an import duty in case the price of silver depreciates, in your opinion, at what particular level of price could that duty be safely imposed?—I have no idea what ever, the uncertainties of production of silver are so great. For instance, any considerable advance in the price of copper and lead—which is far from being an unlikely thing to happen—would automatically bring into existence a vast production of silver beyond even the maximum production of former years without any new discoveries of silver mines, and in the event of the enforced sale of silver in world markets—by product silver—as the result of an enlarged demand for copper and lead. I should suppose that the Indian Government would be confronted with very great difficulties in adjusting from time to time the specific level at which the tariff should be fixed in order to exclude from India the importation of silver of depreciating value.

15,406 You are aware that, a few years ago we had in India for a brief period so import duty on silver. Could you tell me if that duty affected the United States in any way?—I am sorry not to be able to answer that question. Possibly Dr Sprague or Dr Hollander may be able to do so.

15,407 (Chairman) You mean if it had any effect on the silver interests in the United States?

15,408 (Sir Manekji Dadabhai) Yes (Dr Sprague) Do you refer to the period of the War?

15,409 If my memory serves me correctly we had an import duty on silver at two different periods. One of them was during the War?—I do not think that that import duty had any appreciable effect because the other imports of India were being met under great difficulties and restrictions with the consequent intense demand directed towards silver in India. It seems to me that that duty was in the nature of a revenue duty distinctly and it presumably made it necessary for the purchasers of silver to pay a bit more for it but their demand was such that apparently they took off all the available supplies and a special supply had to be created through the temporary withdrawal from circulation of silver certificates in the United States. I am unable to see therefore any reason for supposing that any larger quantity of silver could possibly have been acquired by the Indian people had there been no duty. It naturally follows therefore that they must have paid for the silver which they did secure the market price plus the duty. I do not believe that it had any concrete results upon producers in the United States.

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15,410 Are you in a position to state the total exports of silver during that period to India?—The exports could not have been greater than they were.

15,411 In the previous years?—In the years during the War which are now in question.

15,412 (Chairman) That brings us to the close of the questions upon which you have been kind enough to come here and assist us. There are other very important aspects of this situation which are of great interest to us and on which you have the right to express an opinion from your unique experience. I refer in particular to all those groups of problems which surround the question of a central bank, I wonder whether we might take advantage of your presence, without unduly imposing upon your time or energy, to ask you whether you would assist us with any general advice upon the topic of a central bank and as regards its fundamental principles. Without entering into any matters requiring special knowledge about India, there must be points which emerge from the general principles of central banking which are applicable to those features of Indian conditions which are common knowledge to all of us. Would it be possible for us to invite you to take that further step?—(Mr Strong) I am very glad to do so, Mr Chairman. In fact in my opening statement I took the opportunity of expressing the hope that the discussion would take this turn. I am sure you will realize, however, that in discussing that particular phase of your inquiry I feel I am venturing upon ground where possibly I do not feel quite as sure of my footing as I have felt in discussing the questions raised by the Questionnaire which were the subject of some particular preliminary preparation.

15,413 I hope you and your colleagues will be very stern with us and refuse to be enticed a step further than you desire to go?—I fear that before my statement is concluded you will think that I am venturing with a good deal of boldness into the discussion of Indian matters with which I am not particularly familiar. On that account may I be permitted, in going over the record of this part of the hearing, possibly to indulge in something more than mere textual changes and if it appears desirable to do so, to eliminate some of the statements if it appears that I am venturing on ice that is too thin.

15,414 If you please?—In considering in general the subject of banking in India I would like to describe first my feeling about the general principles which apply to the reorganization of banking as distinguished from purely monetary problems. I would liken it if you please first to the construction of a foundation for a super-structure, and the foundation for a central banking system in India, in my mind must be carefully introduced among and interwoven with the existing banking practices, the existing customs of business, the existing methods of Government in managing its fiscal affairs and the existing business that India conducts, but that it should not be applied as was done to a considerable extent in America as a sort of forced readjustment of methods. If this foundation upon which the super-structure of a great bank of issue is to be erected in India is not a secure one if this concrete in other words has not had time to set, and the completed super-structure is built upon that foundation the super-structure is liable to weaken, settle, and possibly crack and fall. That is peculiarly important in the construction of a plan for a central bank because the operations of the gold standard are to be conducted very largely by the machinery that must be installed within that super-structure. I am proposing to discuss in stages a series of rather loosely related features of a bank plan for India. I am careful to urge that you should not consider that I am submitting a plan or anything like a completed plan. They are merely comments upon certain features and conditions peculiar to India and a central banking practice that I believe it may

be desirable to study. I am sure that you will not gain the impression from what I say that the suggestions involve any criticism of the course of India in these matters in the past. You certainly cannot believe that when I remind you of the fact that it was only 12 years ago that the United States undertook to do exactly what India is now undertaking to do and indeed with us after 80 years of rather more extreme disorder in banking and monetary matters than probably any nation has experienced. I think at this point, partly in order to save my voice, I would like to ask Prof. Sprague or Prof. Hollander, as they prefer, to make a little statement in regard to experiences which we suffered in 1893 and 1907 and which may be considered as analogous in some respects to the experiences in India, and to the influence that they had upon the study of a banking plan for America, the appointment of the Aldrich Monetary Commission, and finally, the adoption of the Glass-OWen Bill?—(Dr Hollander) I think I shall defer to Prof. Sprague, and will be glad to repair any gaps that he may leave.

15,415 (Dr Sprague) That is rather a large order; but there is, I think in your experience a rather interesting analogy in the United States of this character. This is one of a series of Royal Commissions which have been concerned with Indian currency and monetary matters. I think it is rather striking that these successive Commissions up to the present one, at any rate have given comparatively little attention to banking matters. Governor Strong spoke of the disorders which had marked our financial course in the United States. If one looks into our history one finds that public attention throughout many decades concerned itself almost entirely with the securing or the proposing of monetary changes. After the crisis of 1893 for example, there was much discussion of the unfortunate situation in which we found ourselves, and its causes, and public opinion settled down to the belief that the main cause of difficulty was in the green back issue. There seems to have been a general consensus of opinion that if we could strengthen the situation as regards the green-backs and make them convertible and resume specie payments we would have corrected or removed the main cause of our troubles. Again, in 1907 we were in somewhat similar difficulties, and public attention was concentrated upon the redundancy of the currency occasioned in large part by the monetary purchases of silver by the Government during the previous 15 years. That cause of trouble was removed and the public seemed to be pretty well convinced that now we could go forward with no further repetition of such difficulties as we had from time to time experienced in the past. There was a bit of discussion regarding the desirability of having a more elastic bank note issue, but interest in that matter soon faded, and for a time we gave no further attention to monetary and currency problems. In 1907 came another crisis not in many respects very different from those which we had experienced in earlier decades. It happened that there were not conspicuous monetary causes to which the trouble could be attributed. We had been receiving a very considerable quantity of gold during the previous 10 years and prices had advanced somewhat. There was no reason to think that any change in our monetary arrangements would have enabled us to escape the difficulties in which we found ourselves in 1907. Perforce we were driven to perceive that defects in our banking system were present and were in that particular the seat of the troubles and a bit of analysis showed that those defects had been similarly present in 1893 and 1873, and indeed on earlier occasions but it had not been clearly recognized because they were complicated with conspicuous monetary difficulties. Following the crisis of 1907 a Monetary Commission was appointed which

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undertook detailed studies of our own currency and banking experience together with detailed studies of banking organisation and practice in other parts of the world. After some three years of investigation which included the publication of 30 or 40 volumes on currency and banking matters, this monetary commission prepared a Bill for a central bank a Bill which we know in America as the Aldrich Bill. That Bill brought forward in 1911 was the subject of widespread discussion and criticism. It was modified somewhat, but it was not passed through Congress. In 1913, there having been a change in the administration, under new auspices the attempt to secure banking legislation was resumed. Much use was made of the investigations of the Monetary Commission, and the so-called Aldrich Bill was, in particular on its technical banking side, much used in framing the new Measure which came to be known as the Glass-Steagall Bill, and which as it was finally passed, is now known as the Federal Reserve Act. I think our experience raises the presumption that in the case of India you will not reach the desired haven by a consideration of banking, currency and exchange matters alone, but you will find that they are inextricably interwoven in with banking development organisation, and practice, and possibly our experience may suggest the rather unpleasant consequence that a number of years' work may be ahead of this commission.

To 416 Mr Strong (i) The point that I would like to make, using this statement by way of analogy, is that the study of monetary reform in America extended over a period actually of six years in the effort made immediately prior to the establishment of the Federal Reserve Bank. It resulted in no change in the existing currency in America, it added a new form of elastic currency and resulted in the establishment of a bank of issue. It convinced us conclusively that the difficulty with our monetary system was the absence of a bank of issue to hold the bank reserves of the country, to issue an elastic currency, and to conduct the fiscal operations of the Treasury. So that our monetary reform was really expressed in bank re-organisation.

(ii) Therefore if I may make these remarks by way of suggestion, it seems to me that the first stage of development should be a study of those banking and business conditions in India which will lay the foundation for the erection of this super-structure of a central bank of issue. Those studies it seems to us should extend specifically into the business that India does, which is largely agricultural and largely confined to four or five major crops which produce a large export balance. Next there should be a careful study of the existing practices in banking and in moneylending in India and their growth if you please, by adaptation to the needs of India so that when this bank is created it may lend itself to serve the Indian People through adaptation to existing banking habits and practices. Next, there would be a particular study of the habits and usages of the people of India and the outstanding fact which distinguishes India from any other country in its social customs, is the habit of accumulating savings in precious metals. Then again, what is suggested by the literature with which we are all familiar about Indian affairs, is a better understanding of the peaks and troughs of credit occasioned partly by the seasonal character of the business of India, partly by the operations of the financial department of the Government of India itself, and especially concerning those periods of strain and relaxation which arise through the need for periodical or seasonal external and internal payments exchange payments of a large volume.

(iii) I might illustrate what I have in mind at this point by reference to Mr Denning's report which showed among other things the great fluctuations in the volume of the Government balances in the Imperial Bank of India, running at times as I recollect, as high as 40 crores, and then again run-

ing down in a later period as low as, possibly, eight crores. In like fashion one would refer to the need for periodical heavy remittances to London. I am not familiar enough with all the conditions which affect the rates of interest in India but after 12 years of reasonable tranquility in money rates in the United States, my consideration of the situation in India leads me at once to recall the conditions that existed in the United States in the crop moving periods where call money rates in New York, due to the enormous transfer of currency which was required to the interior sometimes went up 2 per cent and even 30 per cent higher at the crop moving period. I notice that the rate of the Imperial Bank of India for the year 1924-1925 started as I recollect, in the season of strain at as high as 9 per cent. It was reduced in a period of a few months to as low as 4 per cent and then again in a few months, as the season of strain approached again, it advanced to 7 per cent. I cannot believe that that is a wholesome condition under which business should be conducted in India. Later on I will be glad to describe how the operation of the Federal Reserve system is able to introduce compensating influences against these large movements to smooth out the curves, of peaks and troughs of demand, and consequently, the high and low points of interest rates. Of course the development of a central bank, or, as with us a system of central banks, is hardly possible in a country where a fairly well-organised money market does not exist. I think it is not beyond reason to suggest that were it not for the influences of the war, which brought into play in such large volume the credit resources of the Federal Reserve Bank we would have had difficulty even up to the present time after 10 years or more in developing the kind of organised money market in New York which would permit the Federal Reserve Bank to function as it should in a money market due to a variety of reasons which I should also be glad to describe later on. As it happens to-day the bank rate of the Federal Reserve Bank in New York functions in a fairly well-organised money market—but still not what it should be—and functions admirably. It is effective at times when restraint is required, and it need not be a restraining influence at those times when an expansion of credit is required—I mean the normal necessary seasonal expansion of credit.

(iv) One of the elements in the development of the money market necessarily is the instruments that are dealt in there. I refer especially to all forms of negotiable instruments which are used in connection with short time business transactions and particularly the sale of goods and especially the best type of instrument that is the bill of exchange and possibly with bank names. I understand that there is a stamp tax on certain types of bills and negotiable instruments in India. We had a Stamp Tax on bills—that is accepted bills and notes—during the recent war which is not a usual form of taxation in America. We found that it interfered very greatly with the operation of the Federal Reserve Bank. The Tax was heavy enough even to cause some difficulty in a nice adjustment of our rates. It certainly had the effect of restricting the development and use of the type of paper upon which a money market must depend for its functioning. Without any desire to intrude views about what is or is not a wise method of taxation in India it has seemed to us that a Stamp Tax on the type of paper which is used for financing business transactions in India is a possible quite a mistake and may lead to a development that will impede the functioning of a bank of issue. The same thing applies to the development of the habit of deposit and cheque banking. I believe there is a Stamp Tax on cheques in India. We had a Stamp Tax on cheques at the time of the war with Spain. It was abandoned. It was found to be an unsatisfactory restraint upon the use of cheques and upon economy in the use of currency. The Stamp Tax on bills and

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of all borrowing nations that issues of securities had first been made by our new railroads payable in foreign currency, such as sterling golders and francs. The attention of investors throughout the world was gradually directed to the favourable opportunity to make money in American investments and in course of time the habit of issuing securities by American corporations in foreign currencies was gradually abandoned, and most of the security issues, even for sale in foreign countries, took the form of dollar securities.

(viii) I am frank to say that the need in the early days for the issue of securities payable in foreign currencies to satisfy the demands of foreign investors largely grew out of the fact that they had no confidence in what the value of the American currency would be when these obligations fell due because we were not on a sufficiently definite standard of value to make them certain that they would get back as much money as they had loaned. The influence of international markets for American securities on the adjustment of exchanges has been marked for many years before the war when we had what was known as the Arbitrage market where trade was conducted in New York and London almost simultaneously, and where securities flowed backwards and forwards with the greatest ease according to the level of interest rates in the two markets.

(ix) Possibly I have enlarged on this too much, but I think we have all agreed among ourselves in discussing this that it is a rather important collateral development to the nice functioning of a bank of issue and to the adjustments of foreign demands.

(x) So far the discussion has confined itself to the existing habits and practices in India in the hope that it may be suggestive of shaping developments in the future which will lay the foundation for the establishment of a bank of issue.

(xi) Now we come to the organization of the bank of issue itself. I should say that concurrently with the development of any plan along the lines of laying this foundation for the bank of issue should be a careful study of the exact character of the bank itself and the functions that it should perform. The first decision which naturally must be made would be according to the weight of evidence whether the bank of issue should consist of the existing Imperial Bank with added functions or whether it should be brought into existence by effecting a separation of the Imperial Bank say into two banks transferring to one bank those functions which properly belong to the bank of issue, and leaving the remaining commercial business with the Imperial Bank or as a third choice not to make any change in the character of the Imperial Bank, but to create a new bank of issue.

(xii) I propose to discuss that in a little more detail later, the point being however, at this stage of the discussion to emphasize that the time for the study of the type of bank of issue is concurrently with the examination and decision of what methods should be applied to the existing bank practices in India so that they may be shaped in the direction of the creation of a satisfactorily functioning bank. It should not take very long I should suppose. We took six years you may be able to reduce the time to a much shorter period before the time arrives to open the bank of issue. That is no more than a guess. We took too long.

(xiii) It seems to me that upon the opening of a bank of issue the first important change would be effected by the complete transfer of the note issue and of the reserves to the new bank. When it comes however to effecting the transfer of the Government deposits, difficulties will be encountered. You will correct me if I am not right in my information that the deposits of the Government in the Imperial Bank vary from a minimum of say 8 crores to a maximum of as high as 40 crores. Now the sudden transfer of the balance which may average 20 crores from the Imperial Bank to the bank of issue necessarily in-

volves the transfer of a corresponding amount of the assets of the Imperial Bank which it seems to me can be accomplished better by doing it gradually and it also seems that one must at the very outset adopt one of two methods in doing so. Either some part of the commercial business of the Imperial Bank would need to be permanently transferred to the bank of issue—that is the transferring of a certain number of the accounts of borrowing customers—or else at the very outset the Imperial Bank must be a very large borrower from the new bank of issue. It would have to discount enough paper with the bank of issue to offset the entire amount of Government deposits which were transferred.

(xiv) With regard to large transfers of that character—we have had some experience at home with them in connection with the establishment of the federal reserve system—it is our feeling that it needs to be done with the greatest possible care in order to avoid disturbance. The analogy in American practice with the operations of the Government account in the Imperial Bank may possibly be interesting and it is this. After the discontinuance of the second bank of the United States in 1836 we established what was known as the independent treasury system. By the practice which then grew up all the revenues of the United States were actually paid in in cash into the Treasury or into sub-Treasuries. The Treasury never loaned money and consequently the strain upon the money markets of these periodical and very heavy accumulations in the Treasury especially when they were surplus-revenues became a very serious matter. A compensating influence which was attempted was to have the Treasury depositing the surplus funds in the national banks. Now there had grown up before the Federal Reserve Act was passed something over 8,000 national banks and I need hardly describe to you in detail the difficulty of keeping satisfied some 8,000 banks all influenced by the desire to make money many of them influenced by special seasonal demands that made these Government deposits of very great value to them and almost a necessity. I am frank to say that it was an unorganized and rather disorderly method. At times the Treasury in order to relieve the strain on the money market has anticipated the payment of the interest on the Government debt for as long a period as six months or a year. They did that as I recollect, in the 90s and I think once subsequent to that. The operation of the Government account with the Imperial Bank of India might have that same effect. I am not aware so far as details are concerned, of what methods are available to the Imperial Bank to offset the accumulation of Government revenue. I will describe if you care to have me what we do at home now that the federal reserve banks hold the Government accounts. The great bulk of the taxes the income taxes are payable four times a year—March, June, September and December. After a good deal of adjustment the short maturing debt of the United States has been arranged to mature on those dates so that in a measure the collection of the revenues on the quarter days synchronizes with the maturity of the short debt. But even there a very nice adjustment for the benefit of the money market becomes necessary. When the Government makes a new issue of securities which it usually does on these same dates, they are sold by the reserve banks through the member banks. Payment for securities issued is made to the member banks and placed at the credit of the federal reserve banks on the books of the member banks. The federal reserve bank has security for the deposit in its hands. That effects no disturbance in the money market because it is simply a transfer of deposit from one depositor to another. When however the funds have to be withdrawn from all of the depository banks and assembled in the federal reserve bank in order to meet Government disbursements there comes a period generally of not over a

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work, when a very large sum of money is taken out of the money market, and at those times the Federal Reserve Bank of New York makes large advances to the Treasury, sometimes as much as 300,000,000 dollars so as to bridge the period of transfer of Government funds. That, on the other hand, has the effect of putting a large amount of credit back into the market because the cheques in transit have not been presented and paid into the reserve bank. To offset this flood of money which comes into the market on the quarter day from the reserve banks we make temporary sales of securities to the market and "mop up" the surplus as the expression is in London, and that advance is gradually repaid as these transfers are effected. This is a detail of administration which may not be directly applicable to conditions in India, and it operates only for a short time, but it has been suggested to my mind in reading the reports that something of that sort might be capable of development in India.

(xv) In addition to the transfer of the Government deposit to the bank of issue which it seems to me would require considerable study, there comes the additional question of what kind of deposit shall be held by the bank of issue. In the United States our deposits consist wholly of funds of the Treasury and the reserves of the member banks. We do no private commercial business at all. The deposits of the member banks are fixed percentages of their own deposit liabilities. So that as to any analogy between conditions in the United States and conditions in India great care would need to be exercised in adopting anything like our federal reserve system to Indian conditions because you have not got the fixed reserve requirements of law that we have in our banking system in America. Among the deposits which would naturally be considered as a possible basis of the deposit business of a bank of issue would be those of the exchange banks—the reserves of the exchange banks for one group. It seems to me that any arrangement for establishing a relationship between a bank of issue and the exchange banks should be designed so that it will lend itself especially to the development of the money market to which I have referred in India. It may be that some interesting analogies might be discovered by a study of the relations that exist now between the Yokohama Specie Bank of Japan and the Imperial Bank of Japan. At least this is one class of deposits that it seems to me requires consideration. Another class would be the reserves of the incorporated banks of India including the Imperial Bank. It may be well here to recall the experience that Japan had in establishing their banking system. In about 1872 after an exhaustive study of European banks by a Commission under Prince Kio Ito they adopted the American national banking system. I think it is a fair surmise at least to believe that those very eminent Japanese students and economists were led to do so by two circumstances—one the fact that the American national banking system seemed in a very short time to have achieved great success, and the other is that it just happened that their visit to Europe coincided with the period when the great English economist Mr. Walter Bagehot was urging upon the attention of the British people the need for independent banking reserves. At any rate the Japanese people adopted the American national banking system. It took them only ten years to discover the defects of the system whereas it took us nearly fifty years. In 1882 they abandoned it and by Imperial decree established the Imperial Bank of Japan. I may say that according to my recollection within a year as a result partly of a foreign loan the depreciation of the currency inherited from the Shogun regime disappeared in Japan. Their experience with monetary difficulties corresponded to our own. They found that what they needed was not a different kind of money so much as a bank of issue.

(xvi) The third class of deposits and one which I am not capable of commenting upon particularly, is the reserves of the Indian co-operative banks and the private moneylenders—(1) as is the Shroffs and the Markwasis and those who trade directly through the widespread system of moneylending which is a feature among the Indian people. The only emphasis that I can put on that class of deposits is that they have such an important function to perform in the credit operations of the Indian people that consideration seems to me must necessarily be given to some relationship between the bank of issue and that class of moneylenders if it can be found possible to create it. I should also say in connection with the creation of a bank of issue that it seems to me that the greatest care must be exercised, both in the character of the change and in the rapidity with which it is brought about so as not to work injury to the Imperial Bank, which occupies so important a position in the banking of the people of India themselves. This largely is a problem of transfer of reserves. I think it is a fact that no feature of the establishment of the federal reserve banks was studied with greater care than this operation of the reserve transfers as there was such possibility of doing injury too hasty or too ill-considered transactions. In fact the transfers were spread over a considerable period, and the machinery of the reserve banks was set up so that they could function at once in taking care of any difficulties that arose in connection with the transfer.

(xvii) Probably the most difficult decision that is yet to be made in the establishment of a reserve bank is as I apprehend one of the functions of a new bank of issue will be to maintain the banking reserve of the nation as it should and I think, must do, is to decide whether there should be statutory reserves required in order to establish contact with the bank of issue—that is the American system of course—or whether, as an alternative it would be satisfactory to permit of a gradual development of this relationship the same as has taken place in England between British banks and bankers with the Bank of England. In other words, there are two methods of approach, one is to require a minimum legal reserve and the other is to exact a standard of credit by means of an arrangement between the depositor and the bank of issue. I think possibly our own opinion runs rather strongly against avoiding the unexpected and possibly radical changes that would be required in Indian banking by the introduction of any system of "statutory reserves." Every member bank in the Federal Reserve system of which there are 10,000 as you know is required by law to maintain with us a reserve of a given percentage of its deposit liabilities and it must not fall below that. If it does fall below that (they are permitted to use it, that is to draw on their reserve account) they are charged a penalty of 2 per cent. above our discount rate for doing so so that it is very expensive for them to draw down their reserve balance. When the reserves become impaired of course they immediately come to us and borrow. I think it also should be considered in connection with the required reserve that there are other developments which would unescapably follow which should be explored. One is that if the incorporated banks of India and the private money lenders are required by law to keep a minimum reserve with the bank of issue it would seem then that they would be entitled as a matter of right to borrow from the bank of issue and that this could not be escaped. If they are entitled as a matter of right to borrow from the bank of issue the bank of issue might be required to make bad loans and I do not know of any bank that could survive a statutory requirement that it should make bad loans. Then again the requirement of a minimum reserve of that character by law implies almost inevitably incorporation that is to say standard methods of accounting and reporting. It brings in its train the need for examination such as we have

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developed so extensively in America. Practically every incorporated bank in the United States is examined by either Federal or State authority and the Federal Reserve Banks have themselves the right to send examiners and examine every member bank at any time they want to—any one of them. They are required to make regular reports and in fact the amount of credit information that we have about our member banks would surprise almost any banker outside the United States.

(xviii) Then there is another important consideration. Almost from the beginning of modern banking if it can be called modern in the United States we have had statutory requirements for minimum reserves—for national banks ever since they were created, and for the great majority of the banks incorporated under the State law. So that it was no new idea, and it involved no great innovation. When the Federal Reserve Bank was established it was a very simple matter indeed to effect by simple percentage arrangements the necessary transfers to the Reserve Banks of some portion, and finally, after 1919 of all the reserves.

(xix) I am conscious of the fact that the programme, as I have described it by stages might have left the impression that the execution of a plan for any central bank in India might involve a long period of activity by this Commission. I do not mean to imply that. What I should like to emphasise is to the progress in the adoption of the plan was the present need of making haste slowly in its introduction into India. Doubtless the continuation of the studies which might be required, such as those that I have very roughly indicated as appertaining to us, could all be conducted by arrangements effected by the Commission for more detailed study in India. However that might be the construction of the plan if we use the analogy of our own method at home would follow after the work of a Commission which laid out the plan finally expressed in a law developed by its Congress for the creation of the bank. Then the period of actual development of the plan would follow naturally by gradual stages so as to avoid any sudden or radical change in the conduct of banking and currency matters in India.

(xx) As to the progress and development of the bank, once it is established, naturally the first question which arises is as to the convertibility of the rupee. My own belief is, and I think this will be developed later in the talk, that at the outset once the bank takes over the note issue and the reserves, convertibility should be substantiated by the methods now employed by the Indian Government. One should not impose upon the bank any radical change of method at the very outset. The stage beyond that would be, possible at once the development of relations by the bank of issue or in such a way as might be decided in other gold standard countries. Whatever form that might take, my suggestion would be that it would include a plan for familiarising other markets with the credit of the Indian Government, so that other centres might be available as credit markets for the purpose of maintaining the convertibility of the rupee. As you know, we sold Council Bills in New York as a war measure through the Federal Reserve Bank of New York. That was not done by direct flotation of Indian securities or direct operations in Indian securities in our market, but it was done by arrangement with the British Government. There were certain advantages given to the rupee market by the fact that our importers of jute were thus able to buy rupees at the Federal Reserve Bank of New York and we very carefully devised the plan by which it was done so as to ensure that the rupees would be used actually to pay for the jute purchased in India. I have no doubt the members of the Commission are familiar with that. The analogy between extending the relations to other gold standard countries and the practices in the United States is shown by what has recently occurred

Prior to the war, before the establishment of the Federal Reserve banks the American commercial banks doing international business maintained accounts and balances with foreign correspondents in various parts of the world. The maintenance of those accounts became a matter of some hazard when the gold standard broke down. Inasmuch as gold is now freely available for export from the United States and has been since 1919 the practice has now quite changed. Most foreign commercial banks maintain balances with American banks and the unusual development which has taken place lies in the fact that, quite contrary to the practice before the war, almost all the banks of issue of the world now maintain accounts in New York. I think about a dozen of them maintain accounts with the Federal Reserve Bank in New York. This is in fact one of the phases of the development of the gold exchange standard as an intermediate step between the time when the full gold standard was abandoned, and the time when the gold standard is finally resumed by those countries which are now endeavouring to do so. But New York has to a very considerable extent become a drawing post for those countries which desire to stabilise their currencies as rapidly as they can in relation to the dollar which is gold. Without attempting to fix a period when this should be done I believe the time will arrive fairly rapidly after the bank is established when a decision can be made as to establishing the definite value of the rupee. Whether that should be at one figure or at another possibly we should not venture to make suggestions. Certainly Indian opinion would be much more valuable on that point than our opinion. (Sir Montreyn Dadooshey: Did I catch you rightly to say that that question must be settled after the Bank is established?) Yes I say at some point which I would not care to indicate but at some point of time after the establishment of the bank the definite value of the rupee might be established. The advantage of waiting for a period although not too long a period, lies in the fact that experience will probably throw a great deal of light upon the value at which the rupee should finally be fixed.

(xxi) Now this suggests comment upon the present practices in regard to the external value of the rupee. The making of remittances for Government purposes, variations between good and bad monsoons, the seasonal character of the exports from India and possibly the imports all these cause a need for a certain amount of management to level off the periodical or seasonal fluctuations that is the peaks and the troughs of fluctuation. It is very difficult to determine at what point a necessary and normal regulation of those fluctuations passes from a simple moderation to an attempt at pegging or creating an artificial value which of course is very much to be avoided. We have witnessed pegging experiences recently with other currencies. So I am not suggesting a rate nor am I suggesting a particular time when the development of particular machinery for dealing with the external value of the rupee may justify fixing the value.

(xxii) Now possibly the next stage in the development of the functions of the bank of issue is the most difficult of all and that is the point where the Ricardo bar might be introduced. We all realise that the original recommendation for the use of bar gold to maintain the convertibility and external value of the bank note related entirely to the use of bar gold for the purposes of making external payments. Inasmuch as the use of gold seems to be the ultimate objective of the plan I can only suggest a few thoughts as to the difficulties which I apprehend may arise which would need the most careful consideration. Difficulties that is to say in the use of gold to maintain the convertibility of the note in the form of bars. If the Bank is to redeem its notes in bars of say 400 ozs, certainly a great deal of study must be

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given to the relations between the upper gold point and any premium for the gold which may exist at the bazzars in India. If it is possible to do so, it would seem to me that at the outset the redemption of the notes at the bank by the use of bar gold should be confined to enabling external payments to be made by the most economic possible methods by the Indian exchange dealers without risk of undue loss of the banks' reserve for any purposes of domestic store of gold. In other words, it is more a matter of management than it is of law at the outset. In fact, it is a question of determining which is the right price to charge for gold at the bank, and how far it is possible to go in permitting a free use of bar gold for all purposes. I should say that this would be the testing period of the gold standard in India.

(xxiii) If experience should disclose that it is safe to do so, then the time may arrive when it is possible to open the mint for coinage of gold. There is a large store of gold in India, which is certainly capable in time of being put to more fruitful use than it is at present, and it may be that the opening of the mint will promote that, but I do not see how it is possible to arrive at a decision without more experience. The decision to gradually approach full convertibility of rupee notes into gold has to be deferred until more is known about the influence which it will have on the habits of the Indian people. With the development of deposit and cheque banking, the development of saving habits in the form of bank deposits and investments by the Indian people, and the reduction of accumulation of gold for ornaments, and as a savings fund, to such an extent as to remove the danger to the bank's reserve, at some point experiment may show that it is safe to allow free use of gold payments. It seems to me experience alone can tell. To attempt it without any experience seems to me something of a hazard. In fact, at this point I think I am justified in making the general statement that widespread deep-rooted national habit of accumulating precious metals, and gold especially under these conditions as a savings fund is incompatible with the establishment of a bank of issue and complete convertibility of the notes until sufficient modification of those habits renders the reserve of the bank of issue secure against their being withdrawn too suddenly, and to a great amount, for the purpose of accumulation of the precious metals. In fact that is to my mind the key to the whole situation in India. To what extent will these deep-rooted habits at some point impair the reserve of the bank? I wish it were possible to make some suggestion to deal with that, but I do not see how any suggestion can now be made. It depends upon experience. That is the reason why I have indicated that preliminary to reaching that stage careful preparation be taken in the direction of developing that foundation for your structure which will reach right down into the hearts of the Indian people and in the ways they have practised for generations.

(xxiv) Now at the outset (that is to say, until the system has had greater development), I believe it would be quite impossible to have notes and coined rupees freely convertible into gold at the bank. But I do believe that the necessary accompaniment of the development of deposit bank savings and the investment habit should be to open the bank of issue to the free deposit of gold. I should say to the free deposit of gold whether it is coined gold or not. In other words the bank should be to a certain extent a market of gold. If the Indian people should desire

in the course of years to convert their gold store not coin, but gold bullion, in whatever form it may be, into a banking account or into an investment security, the door should be opened wide to enable them to do so, and every facility created to enable them to do so. During this entire period notes and silver rupees should be freely interchangeable, and should retain their full legal tender qualities. That belief is founded upon what little knowledge I have of the persistence of these habits in the Indian people. They like their old ways. It seems to me it would be a mistake to force them out of their old habits of dealing with their money, which is the silver rupee, and in recent years the paper rupee. It would be wise to maintain its quality of usefulness to the greatest degree possible. As India grows in population and wealth and as the business of the nation grows, if there is an excess of rupees in circulation now, as we have been taught in America to grow up to the use of, say, 1,500 million dollars of paper money of the types that we have so I should think that certainly India would be able to absorb these rupees into circulation without undue inconvenience or loss.

(xxv) Obviously, a discussion of the development of any plan of this sort has got to stop before it gets into the stage of speculation as to what the conditions will be years hence. The object of what I have said up to this point has been, not to suggest a plan for India—I do not know enough about the details of life and business there to do that—but rather to suggest, from our experience in America, which is quite a recent one, that there are certain particular points that require very careful examination in establishing a bank of issue. I think, beyond the point where I have gone the general project resolves itself into one of experimentation—trial and error. Our recommendation that I would particularly urge is not to place too much reliance upon explicit and exact legal definitions and requirements, but more upon gradual growth and development and experience.

(xxvi) The concluding word, I think would be properly of this character. The outstanding characteristic of the Indian people is industry and thrift. Certainly, this vast accumulation of gold and silver that has taken place in India is evidence of the care with which they accumulate their savings and the high value that they put upon having a secure instrument for the accumulation of their savings. It is now expressed in the accumulation of precious metals. It seems to me that those very characteristics of the Indian people, which really are the foundation of a successful economic life should if possible, be turned to a more useful purpose, that is to say, to the development of a more productive and useful banking system for the Indian people. If it is possible by education, by the creation of facilities, and by the removal of impediments that may be found to exist, to turn this admirable habit of not spending more than one receives, but rather less into the development of a proper bank of issue in India I believe that is what is going to lay the foundation for the introduction of any kind of gold standard that India wants.

15417 We are very much obliged to you for your lucid exposition. You have certainly taken us into matters which involve very deep enquiry into the conditions of the Indian people, particularly in relation to their reliance on gold and silver. Perhaps we can deal with this when we have the benefit of your attendance on a future occasion?—Certainly.

(The witnesses withdrew.)



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## FIFTY-FIRST DAY

Wednesday, 12th May, 1926

F E E T

THE RIGHT HON EDWARD HILTON YOUNG I C DSO DSC MP (Chairman)

Mr RAJE DRANATH MOOKERJEE KCIE  
R. GVO

Mr NORCOT HASTINGS YEELER WARREN KCIE

Mr REGINALD MANT KCIE CSI

Mr MANFRED BYRAMJI DADABHAI KCIF

Mr HENRY STRAKOSCH KBE

Mr ALEXA DEB ROBERT ON MURRAY OBE

Mr PURSHOTAMDAS THAKURDAS CIE MBE  
MLAProfessor JANAKIN COOVERJEE CIE  
Mr WILLIAM EDWARD PRESTONMr G H BAXTER } (relates)  
Mr A AYNG }

Mr BENJAMIN STRONG (Governor of the Federal Reserve Bank of New York) Dr JACOB H HOLLANDER (Professor of Political Economy of Johns Hopkins University Baltimore Maryland) and Dr OLIVER M W SPRAGUE (Professor of Banking and Finance Harvard University Cambridge Mass) accompanied by Mr ROBERT B WARREN (of the Federal Reserve Bank of New York) recalled and further examined

1418 (Chairman) I the final portion of your evidence yesterday you were dealing with matters which involve rather more close attention to the particular circumstances of India and the Indian people and involve in fact considerations which are more local and less general than those which we dealt with in the previous day. Hence I want if I may to ask you a few questions to elucidate the exact bearing of your most interesting suggestions in this regard. Have you been able to give any consideration at all to the statistical aspect of the rupee currency in India, namely as to the amount of rupees outstanding or the amount of rupees in circulation?—(Mr Strong) Not beyond some figures which have been furnished us in connection with the inquiry to the plan and some study we have made of the literature without I admit a very clear knowledge of the way the estimates accompanying the plan were arrived at.

15419 You are not able to bring any evidence to bear upon the figures as to the so-called hoards which have been laid before us by the Indian authorities—I do not think we have any knowledge beyond the estimates that were submitted in connection with the inquiry which I understand were carefully prepared estimates made in India by the authorities there.

1420 That is so. Those are the figures we have been considering. Then as regards recent changes in the habits and customs of the people of India as regards on the one hand the forms of currency which are popular and secondly as regards the habits of investment and banking, would you be able at all to assist us having regard to the change in the general aspect of Indian civilisation as regards these matters in recent years? I hesitate to have any statement upon observations during a short visit to India five or six years ago while I was there two months so what I shall say to you I hope you will understand are no more than impressions.

15421 Let me not ask you to give an impression if you do not feel that you want to give it—Well I should say I left India with the impression as the result of many talks with informed people in India that the general Western impression on which I think partly prevalent in the United States that India is a nation of absolutely rigid and unchangeable habits cannot be sustained so far as my observation went. That is to say some years before my visit to India I had had some discussions of the currency problem of India and the convenience of handling large amounts of rupees in making inter- or payments and so on. Very much to my astonishment when I reached India I

found very much in a short period of time that the convenience of the use of paper money had developed so that the paper rupee was becoming exceedingly popular. Our belief in America was that paper money was not a practical form of circulation for India because of the difficulties of circulation and possibilities of deterioration and the attending preference for silver which I did not find myself well fitted to understand. Now we find that in a comparatively short space of years the use of paper rupees has become not only common pretty well throughout India but it is a very popular form of result. From that I would generally draw the conclusion that there will not be any serious fluctuations in regard to currency in India which cannot gradually be dealt with. I am led somewhat to that view by the fact of the considerable growth of savings deposits in the banks in India. What little information we have from the literature would indicate that a very large proportion of the deposits in the banks in India are in fact savings accounts. The statement which I have heard in London as to the development of other phases of commercial banking would indicate that there is a considerable class of people in India who are really with the facilities afforded to them to deposit the savings in a bank in which they have confidence. All of this I admit is rather fragmentary but I would encourage me to be sure that the development of deposit banking and the investment habit in India would appear to be far from an impossibility. It might take a great many years to bring it about completely and organically but with the extension of facilities for making payments so necessary in a big enterprise like India I should think it was well within the range of possibilities that gradually the habits of the Indian people would change to the use of paper money. I think I am well warranted by the American experience which I think is greeted by the American people.

15422 My question to you will understand was directed at the moment towards the actual state of popular education and opinion on this subject in India. I do not know whether what you have to say will indicate that? I think it will have a bearing upon that point. It relates particularly to the material which I should judge that the experience of the last few years indicates the desirability of further extending the use of notes in India. I think that American experience suggests that it may be nearly able to encourage the use of one-rupee notes. The advantages of using notes of higher denominations are very considerable indeed but

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whatever advantages there are from the use of one-rupee notes seem to me to be on the whole rather different from those which have to do with notes of higher denominations. In the United States it has been found very expensive to use one-dollar notes. The people now decidedly prefer such notes, partly because the silver dollar is a very large coin.

15,423 I think we are getting a little away from the line I was on. It is a most interesting point, but would you draw any very close analogy between the state of education of the people in the United States and that of India, as regards the use of small notes?—I think that the use of small notes may easily be developed in both countries, but the advisability of small notes as contrasted with large notes seems to me to rest upon a very different foundation.

15,424 That is a most interesting point. Mr Governor, would you be able to assist us at all from your own personal experience as regards the amount of reliance which the people of India place now upon the silver rupee as such, as a silver coin of so much content?—(Mr. Strong.) That would be a very difficult question for me to answer.

15,425 That would be taking you a little beyond where you would care to go?—You would be taking me a little too intimately into the life of India.

15,426 If you please. Let me pass to one or two passages in your very interesting suggestions at the last meeting, as to which I should like to understand the weight of your suggestions. In paragraph 15,416 (xx), you say "My own belief is, and I think this will be developed later in the talk, that at the outset once the bank takes over the note issue and the reserves convertibility should be substantially by the methods now employed by the Indian Government." The methods now employed by the Indian currency?—I think possibly some misunderstanding of the pre-war system. You are no doubt acquainted with the pre-war system of controlling Indian currency?—I think possibly some misunderstanding might arise through my inadvertently possibly, over emphasising the development of a plan by stages. I put no particular emphasis upon this particular point where a change to the next stage of development should take place. That would depend entirely upon the extent to which the development of a full plan could be safely accomplished, and my thought in arranging what I had to say, was to indicate that a growth by asperience would be somewhat safer and better than to put the full responsibility instantly upon a new institution until it had developed a technique and experienced staff, and so on.

15,427 I think I follow you. Your opinion would be thus. If things are in need of change by way of reform (of course, the first essential consideration is does anything need change or is there nothing which needs bettering in the best of all possible worlds)—but granted that they do need change then presumably a plan must be formed to effect the required reform whatever it may be. That plan must be a complete one and, of course, a workable one?—And would you also say a feasible one?

15,428 That is the point I am coming to. I understand the weight of your opinion is this: that in any region of reform such as we are dealing with here of a central bank currency the plan must be one which allows for its own introduction by stages in order to avoid any abrupt transition?—I should say by stages partly to avoid abrupt transitions which impose inconveniences or radical changes of habit at the outset or at once. But more particularly so far as the assumption of the various functions of the bank of issue is concerned that too great responsibility should not be assumed at the outset until there has been some little test in the matter of the convertibility of the notes.

15,429 May I suggest keeping that clear as a to proceed point by point? As I am interested what you have just told me you would say—make your plan but do not try to bring your plan into effect all at once,

because this is a world in which you cannot make big changes all at once?—That is a very general statement based upon our own experience of America.

15,430 I understand you have been very much impressed in this recommendation, if I may read between the lines, by the disadvantages that followed in the United States upon a too sudden transition?—Yes, from the possible dangers of too sudden a transition.

15,431 It was not what you were doing but that you were doing it in too much of a hurry?—In too much of a hurry.

15,432 Now, as to your suggestion that convertibility should be substantially by the methods now employed by the Indian Government, you are sufficiently acquainted, no doubt, with the methods of the Indian Government before the war, which are now all the guidance that we have to know that various defects have been alleged against those methods as a scientific means for the stabilisation and control of the currency? For instance, there was no legal obligation to sell bills to settle international payments no obligation to sell exchange. That would be a difficulty in any system?—Yes, it would be, and has obviously been the source of difficulty in the pre-war plan. That, I would assume, is to be wholly corrected, if a central banking plan is adopted by widening the scope of convertibility, so to speak, as rapidly as it can be safely undertaken.

15,433 Would you agree that an essential feature of any such regularisation of the currency system in the hands of the Central Bank is that the obligation should be to buy and sell some form of international payment?—Yes, I think that is fundamental to any plan.

15,434 In the second place, you are aware, no doubt, that in the pre-war methods adopted by the Indian Government with the gold standard reserve, there was no legal regulation of the amount of the gold standard reserve in relation to its liabilities?—I would understand that, and its distinct similarity to the conditions which prevailed in the United States before 1893.

15,435 It is submitted to me that as a consequence of that, there was no insurance for the automatic contraction of the currency when such contraction was needed and sharp criticisms are directed against the system by which the power of manipulation was entirely in the hands of a Government department. Those are matters which, no doubt, deserve consideration, are they not?—Quite so.

15,436 That is a defect in the pre-war system, from that point of view?—Quite.

15,437 Based upon this consideration, are you aware of the existence of what I might call a wide spread suspicion of the gold exchange standard which was alleged to exist in the minds of the Indian public before the war, while, on the other hand, it is contended that there never was a real gold exchange standard. This is rather an excursion into psychology, but has that state of mind in the Indian public been brought to your attention?—It has. I attempted with some feeling of diffidence yesterday to touch on it when I referred very briefly to the difficulty of distinguishing between a practice which attempted to reduce peaks and troughs of fluctuation and one merging almost imperceptibly into the creation of an artificial situation in management, which I think would be bound to arouse suspicion, if I may say so. Correction of that defect in the management of the Indian currency and the exchange standard of former years it seems to me, would be one of the objectives of a plan for a central bank and a gold standard of the character that has been generally discussed. In other words it is desirable to eliminate the suspicion from the minds of the Indian people.

15,438 When such a situation has arisen, rightly or wrongly it may be said to be clear, may it not, that there are great advantages in the simplicity of

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an element of disadvantage?—By depriving it of its convertibility?

15,453 No, but by saying you may have a silver rupee for your note you put the note in a status of inferiority compared to that of the silver rupee—You mean in contrast with gold convertibility?

15,454 Yes—Would not that be very largely over come if both were legal tender, and if no limitation of legal tender were made to apply either to the note or to the silver rupee?

15,455 Yes, I do not think there is very much importance to be attached to it. Next, if your note is convertible into the silver rupee, that rather necessitates the holding of silver in reserve, does not it?—Yes

15,456 Silver is not a desirable constituent of one's reserve for the support of a paper currency?—Not in a fully developed gold standard currency condition

15,457 Because silver currency is not available as automatic support?—That is a principal reason, I suppose. Silver has been relegated to use in token coins on that account

15,458 If one were to look forward to the best possible condition for one's reserve, in supporting exchange and currency, one would like to get rid of silver?—And substitute gold

15,459 But one cannot do so as long as the note is convertible into silver?—No

15,460 Next the silver content of the rupee is high it has happened in the past, and it may happen again that the bullion value of the silver content of the rupee rises above its face value. In that case the rupee tends to disappear. That is a constant threat to the efficiency of the currency, is not it?—That would continue, of course, as long as the possibility of enhancement in the price of silver existed and was a menace to the currency, if that possibility is more than a remote one

15,461 That is what has happened in the past, and it may happen again. We cannot say that the currency is absolutely proof against disaster, so long as such an important constituent as the silver rupee is subject to that menace, however small that menace may be?—If that is a possibility, of course, the currency is subject to that menace so long as it is convertible in that way

15,462 As long as the note is convertible into the silver rupee in its present form, that imposes a great difficulty if the silver rupee is to be held against the note, and the holder of the note is able to demand silver rupees. In that direction there is a substantial way of getting rid of this high value silver coin and substituting a safer token of currency?—I have assumed that there would always be a need for a large and increasing circulation of rupees in India, for the small change of the country, and the extent of the silver reserve to be kept for that purpose is a matter for determination by experience and by what may be expected in the growth of the country's business. I should suppose that a considerable reserve of rupees would be required for a good while. How long I would not be capable of judging until the status of the Indian currency had been well determined—that is how much of the silver rupee was hoarded and how much was in active circulation. That would probably be discovered in the course of the development of this plan

15,463 Undoubtedly a reserve of silver rupees must be necessary for years to come. Are you acquainted with the present state of the Government of India's reserves as regards rupees?—Only that it is very large—possibly unduly large

15,464 Ninety crores?—Yes against something less than 200 crores estimated to be in active circulation

15,465 The point has been made that so long as you maintain the convertibility of the note into a silver rupee you cannot get rid of the silver rupee as a standard coin?—Is it necessary to do that? I

assume it will not be necessary or possibly, will not be desirable to get rid of it

15,466 Do you look upon it as a desirable coin in itself as a medium of small payments in the country remembering that it is a high value silver coin?—That question of value seems to be the premiss of the discussion. Of course, it is a question of degree naturally, how close the danger point is. My personal opinion is that the danger is somewhat exaggerated in people's minds because of recent experience growing out of most unusual conditions.

15,467 Will you look at it from another point of view? Will you look at it as a token that goes into circulation carrying two-thirds of its own reserve? Is not that an uneconomic arrangement?—I am not sure that I understand your question

15,468 The silver value of the rupee is so high that if you look upon it as a note it is one of the most expensive forms of note?—I should say that is a question which relates very much to the attitude of the Indian people towards the rupee, and it would be very difficult for me to answer

15,469 It is a matter which requires for its reply a consideration of the psychological question of the state of mind of the uneducated Indian towards the rupee, which is really what we started from at the beginning of the discussion?—Very much so. As the gold convertibility of any currency introduced into India increases in the estimation of the people at large the silver would gradually sink more to the condition of a purely token coin

15,470 There is one other matter in connection with your evidence at the close of yesterday, when, which I should like to ask you. You say in paragraph

15,416 (xx) "At some point of time after the establishment of the Bank, the definite value of the rupee might be established", and you go on to refer to the "advantage of waiting for a period". Under the existing state of affairs in India is it possible to get on without having some rate to which to work to practice?—I could not answer that question categorically. I should say that the question of rate was one that depended for its determination upon a examination of conditions with which it would be very difficult for me to familiarise myself. I think it involves consideration of the extent to which adjustment of prices and wages has taken place to the changed value of the rupee and also to the particular technical operation of the exchange reserve

15,471 It would involve in the first place consideration of the amount of reserve, would it not?—Yes

15,472 And its relation to the outstanding liabilities?—Yes

15,473 Are you able to consider the matter from the point of view of the statistical position of the reserve?—I should say that the three main considerations would be, first, the domestic requirements to a given price of the rupee, the extent to which any artificiality has entered into the management of the external price, and the size of the reserve

15,474 As I understand your present reply it is that after considering these matters, after deep and prolonged consideration, you would not be surprised if the conclusion were come to that there is nothing to be gained by waiting to fix the rate of the rupee?—The chief object to be gained is to give the rupee a stable value as soon as possible and not to attempt to do so so soon that the value which is given to the rupee is subject to a strain that would jeopardise that value at any time. These are conditions, of course, of which I am quite unable to judge

15,475 These are matters involving the consideration of the actual relation of the reserves and their present volume to the volume of trade?—Yes

15,476 And to the balance of foreign trade?—And the general assumption that India over the years usually has a favourable balance of trade

15,477 I understand that your own opinion is expressed here which seems to be rather in favour

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simply the sentimental influence that might act as a matter of psychological effect at the outset? (Mr Strong) I think that attitude was indicated in my answer to that question yesterday that at the outset the safeguarding of the plan might make that desirable. At least that is what I had in my mind.

15411 I do not quite follow you?—Interconvertibility?

15412 That is what you say?—Yes, that is my answer, at least during this early period.

15413 (Sir Leghald Mount) Then you would consider it desirable at the outset at any rate to have interconvertibility?—Yes, that was my feeling, not to make the change too suddenly. May it be a fair comment also to say that the introduction of the plan to sell gold at a fixed price will of course, have a strong effect in maintaining parity anyway.

15417 (Chairman) I cannot see how it is to arise under these conditions?—How the difference in value would arise?

15418 How would there come to be a premium if the gold value for the rupee had been fixed since both the note and the rupee would be changeable into the same quantities of gold?—Would it not be the case as soon as the convertibility into gold was permitted that the tendency would be for the gold reserve to increase and the silver reserve gradually to decrease and the silver to go into circulation with the growth of the country's business.

15419 That may be so?—Then it would not be necessary at the outset of the plan to take any steps to change the bullion content of the rupee which has been 165 grains for many years, has not it?

15500 It would be necessary, but it might not be desirable?—Those are the points.

15501 (Sir Purushottamdas Thakurdas) Could you tell me whether all the silver that had to be replaced in the Treasury of the U.S. under the Pittman Act has now been replaced?—There is a dispute about a small matter of 15,000,000 ounces or something of that kind otherwise it has all been repurchased. I think there is a question about whether one additional month's production should have been taken or not.

15502 For all practical purposes all the silver has been replaced and silver will now have to be sold in the open market. The U.S. Treasury cannot take any more silver under the Pittman Act?—Aside from that which is required for subsidiary coins.

15503 The American Treasury can therefore take no more silver to replace that which was given to India under that Act?—No considerable amount. In fact I have some doubt as to whether that further 15,000,000 ounces will ever be purchased.

15504 We were told that gold currency is not necessary for any country and if I remember it right Professor Sprague said that he is opposed to gold currency for any country. It is the fact that in the richer countries in the world at present gold currency is in vogue and is presumably authorized by statute—I am referring to America and Holland?—Yes. Holland has no gold coin circulation to speak of.

15505 They tried to put out gold coin but it returned?—They did the same thing in Switzerland and it was unsuccessful.

15506 That is because the people do not want it. They know that the gold is there in their Treasury and they feel they can go without it because they have got more accustomed to notes. But according to the Statute the people can have it when they want it?—Yes they can in the United States and presumably they can in Holland and Switzerland.

15507 Therefore the Central Banks in the west have not yet come to any arrangement by which gold currency can be said to be actually prohibited in the countries which can afford it?—No that step has not been taken.

15508 Would I be correct in inferring that if such a step was recommended for any of these prosperous countries the people of those countries

would not approve?—To discontinue gold coinage entirely?

15509 Yes—Of course, the payment of gold coinage and its circulation has been discontinued in England.

15510 Under circumstances which are quite different from the circumstances of the United States, Holland and Switzerland—is not that so?—Yes under the Gold Standard Act.

15511 I was thinking now of countries which can afford gold currency. There the people would not countenance the discontinuance of it by a statutory prohibition?—I should say that to attempt to maintain a gold currency and not give it convertibility would be a step backwards.

15512 Would it be?—Yes.

15513 Therefore they would like to have it available at their option. The people may not use it as long as they do not want to, but when they want to they can always use it and the Government would be bound to give it out?—If you do not give them the right to get it they will all want it.

15514 Therefore as long as they know they can get it whenever they want it, they do not arraign themselves of it?—But we must distinguish between the need for gold currency in the domestic sense and the need for gold for making international payments.

15515 I wish to restrict myself if you do not mind to the internal demand for gold but we will come to the external demand which has to be met by every country unless it is anxious to live its own credit in the international market. The psychology all the world over is that when people feel that they can have a thing they may not want it, but when however they are kept away from it they get anxious for it and an amount of preaching can bring conversion to them?—May the answer to that as to India not be that there is a great deal of gold in India and if people desire gold currency in India arrangements might be made to coin this gold for them.

15516 Yes. Let us come to the Indian question and if you want to qualify your answer here with some reference to the Indian question I am quite agreeable to it—I merely had in mind that where the demand for gold currency exists, the determination to introduce a gold currency depends upon a great many circumstances, of course the most important being whether the country can afford it. The determination of whether India can afford it is partly a domestic question and partly an external question. If the Indian people have supplies of gold which they are otherwise using and desire to have it coined for circulation and the bank portion can be protected as to external payments is not the means available now to satisfy them?

15517 Then the question of gold currency is even today for them to decide?—Yes.

15518 So far as the international aspect of it is concerned, have you any remarks to make?—I think we covered that pretty fully in our former statement.

15519 Your opinion is that no country should disturb the international market by any large borrowing of money to enable them to draw off gold?—Quite so.

15520 What would you say about the normal demand for gold by India with a favourable balance of trade from year to year in the ordinary course?—In what respect?

15521 If every year that there is a favourable balance of trade for India she took gold, do you think from the international point of view there would be anything to urge against it?—No, India gets gold freely now and I do not think there is anything to be urged against India buying gold.

15522 I thought Professor Sprague said that he would for the present recommend a gold exchange standard, under which India would have gold securities in foreign countries and would not draw the gold that was due to her for the favourable

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balance of trade?—(Dr Sprague) May I explain my position?

15,523 If you please?—If it were quite clear that the pressure upon the gold supplies was such as to entail a downward tendency of prices through the years, and if it were also clear that this was in part due to the absorption of gold by the people in the United States for hand to hand use, I think it would be quite possible to convince public opinion that we were using gold in an undesirable way, in a way that was hurting us, and I believe it would be quite possible to secure legislation limiting the amount of gold paid out for general use. Now when it comes to India, I was not referring to the absorption of gold for non-monetary purposes, I was considering the situation that would present itself with the establishment of a gold standard and gold currency with gold then being absorbed in India for the combined purposes of non-monetary uses and monetary uses, and I felt that in the absence of the development of banking and investment arrangements which would tend to spread the monetary inflow in the years of favourable balance, that it would be disturbing to the functioning of the gold standard throughout the world. It is not a question of the right of India to secure in payment gold in the event of a favourable balance. It is simply the danger to the functioning of a delicate mechanism throughout the world resting upon gold, if the gold is to be subject to sudden withdrawals of very great magnitude.

15,524 But that danger would not be there if the gold were not to be withdrawn in large quantities, as you said just now. Then that danger disappears, does not it?—If the gold is not drawn suddenly in large quantities.

15,525 Therefore if the scheme which you have criticised so fully is not to be put into operation, that danger does not exist at all?—It does not.

15,526 Regarding India drawing gold for monetary purposes, the danger that you refer to would only appear if that gold was allowed to reach the people in such a manner that it could not be brought back to the treasury when required otherwise that danger also need not be feared?—That danger would be absent.

15,527 Taking the devastated countries which are now being helped to get on to a satisfactory monetary position, is there any condition attached to the assistance given by the United States that they should only draw a certain quantity of gold and not more in the case of prosperous years for their export trade?—(Mr Strong) Do you mean in connection with any specific arrangement?

15,528 In connection with their withdrawing quantities of gold from the world?—No, there are no specific limitations upon the operation of the gold standard in the United States.

15,529 Take Germany. Germany is now I understand, I speak subject to correction, in a position to draw gold steadily. The United States have helped Germany with a substantial loan. Is there any condition attached to the loan or is Germany party to any sort of conference whereby Germany has committed herself not to draw more gold than a certain quantity per year?—I do not know of any such understanding.

15,530 Is there any understanding amongst the various powers in Europe that each one will only draw up to a certain point and not beyond?—I do not know anything about that.

15,531 Therefore everybody acts on his own according as he is justified by the trade circumstances of each country?—Yes and the credit policy of each country.

15,532 As justified by the circumstances of each country from year to year?—Yes. (Dr Sprague) With the difference that these European countries are quite clearly not in a position to draw disturbingly large amounts of gold as perhaps India might be.

15,533 You mean for those countries no scheme like the one you have criticised has been put for

ward so far?—No. I mean that they are not in an economic position to draw extraordinarily large amounts of gold from any quarter in a short period of time. Practically we know that nothing can develop in Germany which would make it feasible for them to go into the markets of the world and buy say 200 to 300 millions of gold in the course of say the next five years, or of any other five-year period.

15,534 But for that assurance, you would apprehend that they might draw as much gold as they possibly could. Is not that so?—Yes but that possibility is very small.

15,535 You are only relying upon their absolute inability, and not upon their sense of proportion, as to what the world needs and what the world can stand?—Upon both, and including banking and investment operations.

15,536 I think you said that the question of selling silver should be decided after very serious consideration as to the dangers which might be caused to the stores of value of the holders of silver in India, owing to the reduction in the value of silver?—Yes.

15,537 Would the same consideration be equally serious, in your opinion, in fixing the ratio for the exchange in India, namely, if with the 1s 6d ratio the stores of gold in India were likely to be depreciated, would you say that that should be taken into consideration?—Is this on the determination of whether the ratio shall be one and six or one and four?

15,538 That is it. In fact would you take the same consideration that you urged in connection with the silver also into serious consideration in connection with fixing the exchange for gold?—I think it is one factor which might well be taken into account.

15,539 You would take it into the same serious consideration as you urge should be taken in connection with silver?—No because there is, of course, a difference between 12½ per cent and 50 per cent.

15,540 When you say 50 per cent you have in mind the apprehended depreciation in silver?—Yes.

15,541 But bearing that proportion you would give it the same consideration?—As one of the factors.

15,542 (Sir Alexander Murray) I would like to refer to a matter that you spoke of yesterday, when you said that a money market had to be created in America and that we should have to do something of the same kind in India, if we are going to have the Central Bank functioning properly. As I understand it in America your Federal Reserve Bank rediscounts members' paper only?—(Mr Strong) We also buy bills in the market at times from dealers.

15,543 Can you explain the difference between the two types of bill, apart from the fact that you have the members name in the one case and you have not the member's name in the other case?—In practice we have the member's name in both cases. The type of paper described as commercial paper which we discount at the Bank rate, which is now 3½ per cent in New York is paper given by customers of commercial banks to represent their borrowings at their commercial banks where they keep their accounts similar to the type of transaction expressed in the advance account of the English Joint Stock Banks, that is the single-name paper indorsed by the member bank and we discount that at the Bank rate. The other type of paper is the bill of exchange that is common in the London market a bill drawn by a shipper on some banker under a credit that opened in connection with a shipment of goods. These bills bear the obligation of the drawer, of the bank which accepts the bill and almost invariably—in fact invariably—of some banker by endorsement. Most of these bills reach us through our own members but through a little different type of transaction and at a lower rate.

15,544 That is the point I wish to get at. You differentiate between the bills that come to you through the member banks or outside corporations or private banks?—We differentiate to that extent only,

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and I think I should explain this a little more in detail to give you the information. At the outset of the organizing of the Federal Reserve Banks there were no bills in the New York market at all. The American banks were not in the habit of opening and drawing credits, so there being no bills there were no dealers, and it became necessary to develop the practice of opening commercial credits which the banks were only authorized to grant since the adoption of the Federal Reserve Act, and it became necessary also to develop the practice of dealing with them in the market and to develop dealers. That has been gradually done, so that there is a considerable volume of bills circulating in the market exactly as there is in the London market. Our ordinary practice is to take those bills from our own member banks. We nevertheless must be in a position to protect the dealer as in the case in the London market. So we always stand ready to take bills for short periods from dealers in bills in case the market goes against them, in other words, when the carrying rate for bills becomes too burdensome for them in the money market. So that you may say we have three types of transaction in connection with the paper that is current in the banking system. One is the discount of commercial notes, notes of banks for member banks at the published bank rate, which is a fixed rate. The other is the discount of bankers' bills for our member banks at a lower rate—that is a better class of paper, of course—which is a matter of current practice every day at the bank. The third is an occasional transaction with dealers in bills where we take over portfolios just as they do in the London market when bill houses "make" their bills. But generally that type of advance is made by the Reserve Bank for a very short period. It is comparable to the 7-day advance in London.

15,545 Are those bills that you speak of New York bills, or big town bills?—There are mainly New York bills, and other big town bills like Boston, Chicago, and Philadelphia.

15,546 I can see the difference between your bills endorsed by your member banks where you have got the security of the member bank and against which you have not only the name but you have its capital deposit and its security deposit so that you run no risk of non-payment when you discount the member bank bills.—The reliance is principally on the solvency and good condition of the member bank.

15,547 In India we have no member banks and I see no prospect of our having member banks so that the type of bill that we have to discount in India is the ordinary up-country bank bill, so to speak. How do you differentiate there between the rates that you levy as against the different types of bills taking into account the present state of the bank and the character of the bill?—We have a uniform rate in every district for the discount of commercial paper, and for the purchase of bankers' bills. Those rates may vary between different districts but they must be uniform throughout each district. Consequently a country bank in a district where rates are high might seem to have some rate advantage over the big city bank in the Federal Reserve city where we are located and in fact those country banks do enjoy an advantage. In other words there are wider margins of profit and they can only be dealt with by the exercise of supervision and influence with the country banks as to the extent of their borrowing. It is a matter of some difficulty because the fact that they keep their reserves with us and are required to do so by statute might create an impression that as a matter of legal right they could come to us and borrow. It is a matter that is only capable of being handled by establishing a proper intimate relationship with our members and where they appear to abuse our facilities to explain it to them and restrain them by personal influence. The rate is not always effective in doing so in the country sections.

15,548 Did you find any prejudice existing against the rediscounting of paper? With us there are two

types of prejudice if I may say so against it. There is one that the individual merchant does not like to see his paper peddled about the market to any extent—I am speaking of India now—and the other is that banks do not like it to be thought that in order to finance their merchants they have got to go to bigger banks for assistance. We have had it given in evidence that some people do not care to go to the Federal Reserve Bank but it is thought that they are seeking assistance which might prejudice their accounts with their customers, and indeed, rather than rediscount bills we find banks willing to give their own name and their own collateral and take the loan in their own name rather than rediscount the bill. Have you had experience of those two points in America?—Your question is first, as to the prejudice about borrowing money.

15,549 On the part of the bank, and on the part of the individual merchant?—The prejudice on the part of the bank has been rather deep-rooted. Many member banks have a certain reluctance to show in their published statements that they have borrowed money. But the need for borrowing from the Reserve Bank became so widespread as soon as we had a war to finance that a considerable amount of that prejudice was overcome. In the country districts where we have had in past years since the war a good deal of pressure for credit accommodation, I think the necessity of the different banks had a great deal to do with overcoming that prejudice, but it is a fact that prejudice does exist among the member banks against showing borrowed money in their statements and inasmuch as they publish statements of their condition twice a year, when the time approaches to publish their figures we experience some little difficulty in meeting the situation because a great many banks try to get out of sight at the same time.

15,550 In the case of a member bank that discounts paper with you who presents the bill? Does the Federal Reserve Bank present the bill to the individual merchant, or does it go back to the member bank to be presented?—There is a very fundamental question involved there. When the member bank discounts customers' paper—that is, commercial paper—that paper is almost invariably returned to the member bank and is not presented to the merchant. Where we buy bills accepted by a bank the customer relationship does not exist, such bills are presented in the usual course to the bank which accepted the bill which is very rarely the bank for which we discounted the bill. Of course that is one more reason for developing the habit of using these bills that we divorce our discount operations from the customer relationship between the member bank and the borrower.

15,551 Can you tell us anything about the relations which exist between the Government and the Federal Reserve Banks?—In what respect?

15,552 As regards the appointment of directors and the appointment of governors. What is the influence exercised by the Government if I may just say in that way, upon the Federal Reserve Bank?—The organization of the Federal Reserve system is of this character. Each regional bank, of which there are 12, has a Board of nine Directors. Three of them must be bankers, and three of them cannot be bankers. Six directors are elected by the member banks by a rather complicated system of balloting and they serve for three years. The other three directors are appointed by the Federal Reserve Board, which is the supervising body that sits in Washington. The Federal Reserve Board members are Government officials in the sense that they are appointed by the President and their appointment confirmed by the Senate. The Governors of the Federal Reserve Banks who are the chief executive officers are appointed by the Board of Directors of the Federal Reserve Banks and not by the Federal Reserve Board. That Board consists of six men and two ex-officio members who are the Secretary of the Treasury and the Controller of the Currency. There are certain definitions as to

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what sort of men they should be. They must be men fairly representing commerce and agriculture and be men of some banking experience. There must be not more than one appointed from one Federal Reserve district. There is a prohibition in the statute against both officials and members of Congress being members of the Federal Reserve Board.

15553 Do I understand you to say that no Government official no member of the Senate or no member of the House of Representatives can be a member of this Board?—Of the Federal Reserve Board, no.

15554 And of the Federal Reserve Bank Boards?—By practice, and as a result of rulings by the Federal Reserve Board no person holding a public office or actively engaged in political matters is regarded as eligible on a Federal Reserve Bank Board. I think I should say that I am making this statement without any regard to conditions which may prevail in other countries. This seems to be an arrangement and a practice which satisfies the sentiment in the United States.

15555 Where does the Controller of Currency fit into this arrangement?—The Controller of the Currency is an officer appointed by the President who is charged with the supervision of the National Bank system and he has a large organization scattered throughout the country engaged in examining 10,000 National Banks all of which are required by law to be examined twice a year.

15556 For which purpose he has a big staff of examiners?—Yes all over the country. They are divided up into districts. There are 12 head examiners, each allocated to a Federal Reserve district and each has a staff of assistants.

15557 As regards other Government officials one on the Board is the Secretary to the Treasury?—Yes.

15558 He is Chairman of the Board, and it is really an *ex-officio* position, and he does not actively interfere, nor does the Controller actively interfere. I suppose, in the immediate management of the banks?—Well, I should have to ask you to define what you mean by 'interfere'.

15559 I will leave it at that?—They are active participants in the deliberations of the Board. The Controller of the Currency occupies a very important position in relation to the Federal Reserve system because he has the supervision and the general regulation of the great body of the membership of the National Banks. In the same way the Secretary of the Treasury is responsible for the Government finances and we are Government fiscal agents and do all their financial business so that the intimacy of relationship is fixed as a matter of necessity. Whether they are members of the Board or not that relationship would of necessity be a very intimate one.

15560 The Federal Reserve Banks act as fiscal agents of the United States Government?—Yes.

15561 They have taken the place of the old Treasuries to a large extent so far as those collections are concerned?—The sub-Treasuries have been discontinued and closed.

15562 In the outlying districts—in the hinterland of America—where probably there are no head offices, so to speak, of the Federal Reserve Bank. Who does the collecting in those particular places?—Of the revenue for the Treasury?

15563 Yes?—That is done by a carefully worked out arrangement by which the revenue collectors located in towns and cities where there is no Federal Reserve Bank deposit the revenues collected in the National Bank in that town and the National Bank transmits them to the Federal Reserve Bank. You must have in mind that the National Banks are also by law designated as fiscal agents of the United States although their duties have become very much less active since the establishment of the Reserve Banks.

15564 The commercial National Banks members of the Federal Reserve system, have deposits with

the Federal Reserve Bank to secure good management and other things of that kind?—They carry their reserves with the Federal Reserve Banks.

15565 (Sir Monckton Dudhoy) In discussing the question of stabilization with the Chairman this morning you had stress on three points. One of them was that we had to decide whether the requisite domestic adjustment had taken place another important question was the size of reserves. Then you gave as a third reason that it is desirable to go to stability at the proper price. When you speak of the proper price do you refer only to Indian conditions or do you refer to international conditions also?—I think in your preliminary statement you over-emphasized my language a little bit, I was not attempting to lay down a *sine qua non*. I was merely expressing the opinion that those were three important considerations to be borne in mind in connection with fixing the value of the rupee. I would not attempt to suggest that it was a *sine qua non*. The judgment of this Commission is much better than mine.

15566 I will accept that modification. Then in deciding the question whether domestic adjustments have taken place you mean by that the prices in India?—Yes. I mean generally the Indian readjustments of prices and wages.

15567 You do not attach any weight to Indian prices adjusting themselves to international prices?—I think that has a bearing upon it.

15568 You also suggested a postponement in the matter of stabilization until the establishment of a Central Bank. You are aware that on the Statute Book of India there exists at present an inoperative ratio of 2s 2½?—Yes.

15569 That ratio has existed for some years now. The present instabilization interferes with the trade and commerce of the country with European countries, as well as with the internal trade also in a measure. Would it be advisable with this inoperative ratio existing on the Statute Book to postpone the settlement of the stabilization rate of the currency?—I do not understand that there is an unstable condition of the rupee. I gather you have had a rather stable value for quite a period now.

15570 Quite so by a certain amount of manipulation. We have obtained a certain amount of stabilization during the last 18 months but it has been attained by sales of bills and by manipulation at times by the Government for keeping the ratio to a certain figure?—That is a matter I know nothing about.

15571 You were not aware of that?—No.

15572 Speaking about the establishment of the Central Bank you referred to two or three matters, and particularly to a third class of deposits which you say is the reserve of incorporated banks and of the private moneylenders—that is the Shroffs and Murrums and those who trade directly through a wide-spread system of moneylending which is a characteristic feature of India. You also laid emphasis on that class of deposits in that they have a very important function to perform in the credit operations of the Indian people and you said that some consideration must necessarily be given to the relationship between the bank of issue and that class of moneylenders. May I ask you to explain what relationship you contemplate?—I was endeavouring in that statement to bring into contrast conditions that exist in the United States and those that exist in India. In the United States we have about 30,000 incorporated banks of which one-third are members of the Federal Reserve system but covering all parts of the country. Hardly any town in the United States which has a bank is without membership in the Federal Reserve system. Those are incorporated banks. They have fixed capital which is fixed by law or fixed by the terms of their organization. They are required to keep a fixed reserve with us. In India you have no such banking system. You have not got 30,000 separate unit banks in all the towns and

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eties of the country, but you do have a system of moneylending represented by the Indian bankers and moneylenders. So that the conditions in India being wholly different from those in the United States, it seemed to me they would require special study as to what type of relationship could be established between the moneylending people scattered throughout the whole of India with the bank of issue, if one was established. It would necessarily have to be upon quite a different scheme of relationship from the rather formal and mathematical one that can exist with us where the capital is fixed and where the reserves are fixed by law. I was not attempting to offer a suggestion as to how that should be done, but I was trying to bring out the fact that the conditions in India might not permit of the adoption of a system exactly like the one we have in the United States.

15,573 The Indian moneylending system is a peculiar organisation. In the American system you have a big organisation working as a complete entity, but I am unable to conceive any process by which the Indian organisation could be brought into direct relationship with a Central Bank or bank of issue?—You see no way by which it could be done?

15,574 No. Can you indicate the lines upon which it could possibly be done?—That would be very difficult for me to do except to explain that were banking by the Indian people to be developed to a point that in any city or town the bank felt justified in accepting the account of a banker in that town upon terms and conditions set out by the bank as a standard of relationship it might be possible to establish a direct relationship. It seems to me it is a matter that would grow gradually by experience.

15,575 Are you aware that the rate of interest as well as the rate of discount prevailing among this class of people is much higher than the bank rate?—I gather so.

15,576 Does that make it absolutely impracticable to interweave a system of that kind?—It does make it difficult. I am reminded and I think I have mentioned the fact that we have very much the same situation in America. In the more remote sections from the money centres it is not an uncommon thing for banks which are members of the Federal Reserve system to charge as much as 12 per cent whereas the bank rate may be only 4 per cent. So the difference in rate with us has not proved an insuperable obstacle to the relation. It is more a matter of management and practice.

15,577 But it not relatively so wide in the United States as it would be in India?—I am not well enough acquainted with the differences in rates to answer that question.

15,578 Speaking about the constitution of a Central Bank yesterday you said a Central Bank is only possible where a highly organized money market exists. In regard to the organized money market I understand you refer to the system of a network of banks or have you got something else in contemplation?—I say that the proper functioning of a Central Bank will require a money market in which it can function. It may not be necessary to create that in advance. We had no bankers' bill in New York when the Federal Reserve banks were established. As a necessary and collateral development of the operation of a Central Bank it would be well to promote the development of a type of money market in which that bank would easily function.

15,579 You mean to say that it is not necessary for the existence of a bank that there should be banks before this Central Bank is established, but the money market will develop?—It will develop.

15,580 It will develop the work of the Central Bank if those banks do exist?—I think that has been the history of Central Banks. The market develops around it.

15,581 In connection with the successful establishment of the Central Bank you referred to the anomalies which exist in the Stamp Act about negotiable instruments and stamps on bills and

cheques. Do I gather there is no stamp duty on bills of exchange in America?—No. We had one during the war, and I think it was the first tax abolished when our tax reduction took place at the end of the war or it was one of the first.

15,582 It was only temporarily put on during the war?—Yes, as a war measure.

15,583 All negotiable instruments bear no stamp duty of any kind?—I do not think any negotiable instruments which are current in banking and which reach the Federal Reserve Bank have any stamp tax now. I believe there is a stamp tax on brokers' loans which we do not handle, of course, at the Reserve Bank.

15,584 Speaking about the constitution of the bank you also said that the banks are prevented from making overdrafts by statute?—Yes, that is true.

15,585 Then you qualified that statement by saying that overdrafts were permissible on securities?—Not overdrafts.

15,586 Not overdrafts?—No.

15,587 No form of overdraft is allowed of any kind?—No.

15,588 Either on current account or on cash credits?—No. I think there are a few States which may be an exception to that, but, generally speaking, you may say that there is a prohibition against an overdraft, and that applies to the National Banks especially.

15,589 But if those drafts are supported by adequate securities, what is your objection? Can you explain to me what is the real object the United States Legislature had in view when making such a stipulation?—Speaking from the standpoint of the Central Bank, which was the subject of our discussion one of the objections is that the overdraft, which may indeed represent the best type of credit in use, does not produce a negotiable piece of paper which is capable of being discounted at the Reserve Bank and, consequently, a very large portion of the accounts of the member banks might be incapable of being available for credit at the Reserve Bank in time of need.

15,590 It is to secure the reserve banks from the temptation of accepting securities which may not be consistent with safety?—No.

15,591 It is not that?—No. The objection to the development of cash credit from the standpoint of the Reserve Bank is that it puts the assets of the member bank in a form where they are not available for use at the Reserve Bank in time of need and probably those accounts are the best assets.

15,592 Speaking about the Central Bank yesterday you also stated that if you retain the Imperial Bank it can be divided into compartments, one the bank of issue and the other doing commercial business. Would those watertight compartments lend them selves to sound financial working?—I made no suggestion, but I simply indicated that there might be three courses of approach in connection with the bank of issue. One would be to convert the Imperial Bank into a bank of issue. The other would be to separate the Imperial Bank into two different and distinct banks and that third would be to organize a new bank of issue leaving the Imperial Bank substantially as it is.

15,593 That is your third suggestion?—That is merely a suggestion of a point for consideration, that there were three methods of approach. My object in suggesting that was principally to bring out what our experience showed as to the need for care in the reserve transfer and the transfer of Government deposits.

15,594 You also spoke about complete transfer of the note issue reserve to the bank. In speaking about the reserves were you referring to the bank reserves or to the currency and gold reserves?—To the currency and gold reserves.

15,595 If those currency and gold reserves were transferred to the Central Bank, can you indicate the lines on which the Government ought to be com-



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penised?—I do not think I could. I have not sufficient intimate acquaintance with the effects of such a transfer.

15 596 You cannot deal with that matter in connection with India on that?—No.

15 597 You would agree that the Government would need some compensation because these were funds in the hands of the Government, and represented profits on the coinage of the rupee?—I do not think I have any opinion on that question of compensation.

15 598 (Sir Henry Straloch) I asked a question yesterday regarding the legal obligation to compel the member banks to hold a certain percentage of their liabilities with the Federal Reserve Banks, and I asked you why it was that the percentage to be deposited with the Federal Reserve Bank was different in the different localities. You suggested that you would later on mention what the reason was, but you did not?—I cannot say that I can defend that particular system because logically it might appear under a banking system which had developed along different lines from ours that country banks being more remote from the Central Bank should have a higher reserve. The reason for the difference of reserve requirements between the Central Reserve cities, the reserve cities and the country banks, was due to certain characteristics of our old system, where the country banks carried their reserves in the reserve cities and the Central Reserve city banks and all of the banks of the country, including the reserve city banks, might carry their reserve in the Central Reserve City Banks, so that the development of the different size of reserves grew out of the feeling that a greater responsibility rested upon the banks in Reserve centres which were carrying a proportion of reserves for banks located in country sections.

15 599 If a new system were set up, you would I take it, not advocate any such distinction being made as has been made under the Federal Reserve Act?—I think the proportion of reserve would have to be based upon very different considerations than those which existed in America, when this particular practice was incorporated in law. You understood that before the establishment of the Federal Reserve Act country banks were required to carry a certain percentage of reserve of which a portion had to be in cash in their vaults and a portion might be carried with a correspondent bank in a money centre. That is what led to requiring a higher percentage of reserve to be carried by the commercial banks located in the money centres.

15 600 Yesterday you told us there are two ways of dealing with the relationship of the commercial banks and the Central Bank. One would be the one in practice in America to let the commercial banks hold a certain given percentage of their liabilities with reserve banks and the other would be the system adopted in this country where no such provision exists, but where the Central Bank carefully discriminates for whom it opens accounts and rediscounts. In a country with an undeveloped banking system and with what may be called a lack of banking discipline would you not regard the system under which the commercial banks are compelled to deposit some of their reserves with the Central Bank a preferable one to the one that has grown up in this country? What I have in mind is this. If you were to enact that any bank trading as bankers, that is to say taking money on deposit which can be withdrawn by cheque, were held to deposit some of their reserves with the Central Bank and at the same time to disclose its own status as in the case in some of the central banking countries that would conduce to educating the public to the duties of bankers better than if there were no such well-defined system?—The development should be considered rather historically. In the United States we had long periods of wild and reckless banking practices which imposed great hardships upon the people of

the country and very severe losses at times. Not only have we the habit in the United States of doing a great deal by legislative enactment, expressed with great particularity but in the case of banking our experience had been so unfortunate in former years that Congress and the legislatures were ready to impose very careful and precise restrictions upon banking and not only that but to introduce a very extensively organised system of reports and examinations. We do banking now too much by law in America I think and not enough by good judgment, but that is the way a system is liable to develop in a new country which is growing. Whether it would be wise in India to impose the same type of particular legal restrictions and requirements upon banking that we have in the United States, would depend upon a pretty thorough understanding of banking methods in India how secure they are and how certain and carefully the business is conducted. In England it has been the development of centuries but the growth in the United States had sprung up relatively almost overnight. The need for this type of regulation and supervision seemed to be apparent to everybody at any rate that is the way we have grown. There are those who say that it makes very bad bankers. They try and do everything by law instead of by good judgment. The probability is that under such a system as we have had banking has not developed quite as successfully as it might have done with some greater sense of responsibility. On the other hand we may have been protected from banking disasters which would be very serious and constant failures of banks that otherwise would have occurred. If you introduce such a system of careful scrutiny and examination such as we have it is quite natural that Boards of Directors come to rely upon the examination by the Controller or the State Superintendent as partly relieving them of some of their responsibility to see that the bank is always in a good condition. When you are dealing with a private banker subject to no supervision whatever, you have wholly different conditions. My remarks yesterday were intended to suggest as they probably have to your mind the need for special study of that kind and the desirability of not attempting to do what we did in the case of our Federal Reserve system. Considering that the Federal Reserve system has worked pretty well in America it might be thought it would also work pretty well in India, but I am not willing to say that it would work well in India.

15 601 What has been suggested is this that in a country unaccustomed to the Central banking system the functions of the Central Bank are usually not well understood. In particular it is not well understood that the Central Bank is there to hold the cash reserves of the commercial banks. I have heard of instances where owing to the absence of such statutory provisions some commercial banks have refrained deliberately from depositing their cash reserves with the Central Bank. Such action largely impedes the proper functioning of the Central Bank.—We have had considerable experience in that very matter when you consider that out of possible 14,000 or 20,000 banks which can qualify to be members of the Federal Reserve system in America we have only about half that number, principally the National Banks of which there are a little under 10,000 who were required to be members. The State banks are permitted to become members on conforming to certain standards. The membership of the State banks has been largely confined to the banks in the large money centres which not only became better acquainted with the meaning of the system and the security afforded by membership but really had greater need of membership—at least they thought they had especially during the war—when the same conditions prevailed that you referred to. There are many good banks in the United States which might be members of the system and probably

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would profit by being members, but they still do not understand well enough what the Central Bank means to feel the urge to join the system.

15002 It has been suggested that it would be proper for a Central Bank to undertake the savings bank business, that is, to allow interest on savings deposits. Would you favour that, or do you see any objection to it?—It certainly would not be a desirable thing in the United States. It might apply in India, but one of the outstanding objections lies in this fact: that the accumulation of a large volume of savings in the Central Bank, upon which liabilities for interest arise, makes it necessary for the Central Bank to lend money and earn money. Certainly we have learned in recent years that to import into the operation of the Central Bank the regular practice of lending money for profit can sometimes do great damage. If the obligation to earn money was imposed upon the bank by taking a type of deposit which required payment of interest, it might interfere with a normal credit policy. May I illustrate it by this very simple analogy from the United States? We hold about 21 billion dollars of reserve deposits of our members. That is the reserve account of the nation. There has been a very strong desire at times expressed by the member banks that they should get interest on their balances just as they formerly did when they carried a part of their reserves with commercial banks—say, 2 per cent interest. In order to pay 2 per cent interest on those balances we would have to be able to earn 45 million dollars a year. In order to earn 45 million dollars a year to pay that interest it would be necessary for us to expand our credit at present discount rates by 1,100 to 1,200 million dollars. In other words, it would force an inflation upon the country. Conditions in India may be different and you may be able effectively to separate savings accounts and their investments from the credit operations of the bank of issue, but if it did have the effect of requiring the bank to earn money by investments at a time when it was not desirable I should think it would be a very undesirable thing for the Central Bank to do.

15003 You referred yesterday to the necessity that to have a properly functioning central bank there must be a money market. Would you agree that the establishment of a central bank is the best means of establishing such a money market and that without a central bank a money market cannot be properly developed?—Let me see. It results in develop-

ments that are distortions of the money market. Prior to the establishment of the Federal Reserve Bank practically the entire readjustment of the money position of the banks of New York, and largely of the whole country, was effected through the Stock Exchange. In an account—a most unfortunate situation. When reverses became impaired the banks called loans on the Stock Exchange for payments and we had a crash in Stock prices, money rates climbed and there were all the difficulties of an unorganised money market. That is all avoided now. We do not have these reverses because we have got a better organised money market with the Reserve Bank to take care of these peaks and troughs of demand. There are very considerable in the United States. The Christmas demand alone for currency to do the shopping for Christmas presents imposes upon us an expansion of our loans of about 400 million dollars.

15004 (Chairman) Before we close the evidence is there any other matter to which you wish to refer by way of correction or explanation?—I have nothing further to suggest as to our evidence. But I do not think that my colleagues and I would be satisfied to conclude this hearing without expressing our very great appreciation of the opportunity to appear before the Commission and for the privilege of being able to make possible some small contribution to its work. I think personally I should say from my own experience at home that no greater service can be performed to India than what has been undertaken by this Commission. The first 20 years of my banking life in New York stand out today as the experience of passing through recurrent years of strain of anxiety and of disaster which the accomplishment of our reforms seems finally to have enabled us to escape, retarding the recurrence of the worst war in history. So may I conclude by saying that we all feel great admiration and respect for the eminent men who are willing to lay aside important business and other obligations and devote themselves as you gentlemen are doing to a great service to the 200 million people of India.

15005 (Chairman) We are very much obliged to you and your colleagues for your assistance and for taking so long a journey to put that assistance at our disposal and for the very generous measure with which you have put your time at our disposal in the course of the last four days. I am sure I speak on behalf of all my colleagues when I say that I feel most profoundly that you have been of the greatest possible assistance to our deliberations.

(The witnesses withdrew.)